REALITIES OF 1960 SECURITY MARKETS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

ECIAL PREVIEW ISSUES... Part 1

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60 OUTLOOK FOR ADING INDUSTRIES

Which offer best prospects

By GEORGE W. MATHIS

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Significant Political nd Economic Trends Around the World — As we enter 1960

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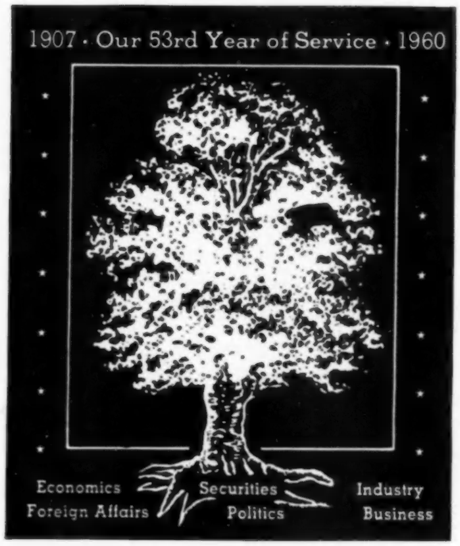
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

OF SERVICE TO HIS COUNTRY . . . Most people are pretty much aware that Governor Nelson Rockefeller in running for office is inspired by the will to render service to his country at this decisive period in our affairs.

And I for one welcome his decision to remain as Governor of New York, because in that office I believe at this time he can accomplish more for the good of the country, — for, as Governor he is in a particular position to help solve the alarming problems on state and local levels crying for solution—situations that must be solved if this country is to make the internal adjustments spiritually, economically and financially that are needed to face up to and overcome the forces that have been destroying us from within.

In collaboration with the various governors, solutions could be worked out that would help each state to set its own house in order in a way that would bring enthusiastic response from the people, even reaching crusade proportions. In addition, under his leadership, many of the maladjustments between Federal and State functions could be corrected. This same team-work could be extended into other fields of collaboration with the Administration, so that they would not be at odds with each other, such as has been the case in various instances, including the recent reversal of the Supreme Court Decision concerning state taxing powers of interstate commerce.

And synchronizing the efforts between the states and the Federal government, would enable the new president to concentrate on matters of the greatest national and international consequence to our well being.

Under this kind of team-work, Mr. Rockefeller's courage, independence and statesmanship would inevitably make him an unbeatable candidate for the presidency in the future. By staying on as governor he has undoubtedly increased his stature and his national influence. And, when he urged us most solicitously in a way that would be well for all political leaders to emulate—"to give 'full and foresighted' scrutiny to the great national and international issues of the day and to undertake a profound and continuous act of national self-examination", he was setting a standard for leadership that could be studied profitably by leaders of both parties.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

With the Editors

AS WE ENTER 1960, a political year with an all-important presidential election, we can expect the air to ring with rousing predictions of the great days that lie ahead in the decade of the sixties. We do not intend to join the chorus, nor will we attempt to coin a tricky phrase such as the "glorious sixties", the "scientific sixties" or the like. For in our five decades of publishing we have learned that long range predictions are pure guesswork.

Attempts at "distant future" prognostications ignore the unforeseen and unpredictable that may arise in the interim—producing social and political shifts, such as the intense nationalism abroad which followed World War II—the recent financial and economic dynamism in Europe—and the tremendous scientific developments which ushered in the space age and made obsolete many previous conceptions of natural forces. And of great importance too—although generally overlooked—is the fact that each generation in the saddle, intolerant of the thinking of those who came before it, wants to try its own wings, which upsets the established balance, and results in a period of trial and error for which we all pay the price.

Take just the last ten years, for example. We entered the fifties with most of the world just beginning to stir from the ruin of World War II. Our task then, it seemed, was to keep our friends' heads above water lest they sink into poverty and eventually into the Communist orbit. The "dollar gap" was a principal source of concern, summing up in one short phrase what was believed to be the most important international peacetime problem.

In our inexperience we went about it like amateurs, and are today feeling the effects of over-enthusiastic "give-aways", so that now, ten years later, the emphasis has swung from a dollar gap to wonderment about the soundness of the dollar. Also our trade position vis-a-vis the free world has changed so radically, that there is serious question whether we can continue to compete effectively against the modern industrial plants created abroad with American aid.

Who would have dreamed ten years ago, that by 1960 the free world would be vibrantly alive—healthy and prosperous enough to begin throwing off the yoke of socialist ideologies, while the United States would be fighting hard to maintain its position in international markets and sinking deeper into the welfare "statism" that is now being rejected abroad.

No, dear reader, we do not intend to attempt to categorize the sixties. Events alone can do that, as events alone set the tone of the fifties.

1960

We would rather devote our efforts to the more pragmatic problem of the year ahead, for what happens in 1960 will determine our economic and political health for years to come, as well as the level of stock prices for 1961-62.

As in all election years, 1960 will be one of empty promises and platitudes designed to offer all things to all men. But it will also be a year in which real issues—vital issues—will have to be met regardless of political consequences. For, in view of the radically changed international economic picture, the position of the United States will hinge on which of

three alternatives we follow—each a logical outgrowth of the policies we formulate:

- *Maintenance of the Status Quo* — which means a continuing decline in the value of the dollar, as the combined impact of rising wages and higher prices elevate our cost structure, undermining our position in world markets, and bringing on a serious depression.
- *Orderly Deflation* — if economic forces are permitted to take their natural corrective course. This would put an end to the wage-price spiral, enabling us to compete advantageously in foreign markets. This would mean a gradual rise of the dollar to its former high position, and lay the necessary foundation for future growth in the 60's—for that rousing prediction of the "glorious sixties".
- *Set the Trend Toward Currency Devaluation in 1961*—if powerful hypodermics are used by the government to keep the boom rolling in 1960, pressured by the political distortions of a Presidential Election Year.

This possible third course is the most disastrous, and 1960 could readily set the stage for devaluation of the dollar in 1961 or 1962, if political considerations and self-interest continue to dominate the domestic scene—if loose money policies, unrealistic farm subsidies and other forms of welfare "statism" are continued.

Money and Taxes

So far there is no possibility that taxes will be reduced in 1960. Representative Mills, Chairman of the House Ways and Means Committee, has announced with regret, but with emphasis, that general tax cuts cannot be expected in the coming year. They may be politically expedient, but they are just not compatible with the State of the Nation today.

In the same vein, there are no signs that the Federal Reserve Board is prepared to relinquish the tight reins it is holding on the money market—nor is there any indication that the Administration is prepared to yield to Congressional pressures, the power to intervene in the Fed's handling of the nation's money supply.

How successful these moves will be in checking the frightening erosion of the dollar, however, will depend on the fortitude our leaders show in handling related and equally important problems.

The Key Issue of Labor

We are near the showdown of the worst steel strike in the nation's history. Under the law, there is little the government can do until the embroiled parties have exhausted all avenues for working out their own problems.

However, once it is over, Congress and the Administration—regardless of the fact that this is an election year — will have to come to grips with the inadequacy of our labor laws, that now permit serious abuses of trust—disrupt our economy—cause loss of income for millions of people—and grossly interfere with the affairs of citizens not involved in strikes.

Wise leadership will have no trouble in convincing the suffering American people that new laws to deal with paralyzing strikes are not "anti-labor", but are actually pro-labor and against union bossism. New labor laws should put an end to the gravy train, the exploitation of the worker—by those who use the labor unions as a legalized racket—and who are free to tax the citizens of our country for the right to work—a right that exists for all men under our Constitution.

Settlement once and for all of our labor problems cannot be accomplished in any one year—particularly in an election year. But we must try with all our might, to do so, for unless a start is made in 1960, we shall have to take the big step that leads to the third alternative—devaluation.

The Stock Market in 1960

The things that must be done are clear. The things that will be done, both at home and abroad are not nearly so certain. Hence, the stock market in 1960 will once again wallow in uncertainty.

On the one hand will be the powerful stimulus of a resurgent economy after the disastrous steel strike. On the other, the inevitable letdown that must follow the period of inventory rebuilding and feverish production to make up for business lost in the last half of 1959.

It is at this point that danger will appear. For if the post-strike stimulation peters out by mid-year, the political pressures will grow strong to "juice up" the economy with props and artificial mechanisms of one kind or another.

Paradoxically, the stock market will probably react differently than it has in the past to the events of the latter half of 1960. If artificiality rules the day, the market will probably begin to deteriorate in anticipation of a slowdown. If, on the other hand, sound policies are maintained, holding inflationary pressures in check, investors will probably take heart and hold the line in the belief that business will remain sound, if unspectacular.

Remember, on all counts the stock market is historically high. It has run up for a decade and has more than adequately discounted at least another decade of inflation. Just the fact that it is high, however, is no indication that it must come down. But its height must increase its vulnerability—and nothing would administer a greater shock than the firm conviction that devaluation of the dollar had become inevitable.

A sound economy coupled with a gradual and healthy growth of corporate earnings in a non-inflationary atmosphere are the only conditions that can support the current market.

Editor — Publisher

Realities of 1960 Markets

Upward tendencies in stock prices show cumulative evidence of significantly reduced momentum. Good medium-term business prospects are on the supporting side, but the monetary factors are adverse. The 1960 upside prospects would appear to be limited for a market which has made no net progress in nearly 5 months. We advise conservative selectivity in realignment of portfolios and caution on any new buying, awaiting clarification of events.

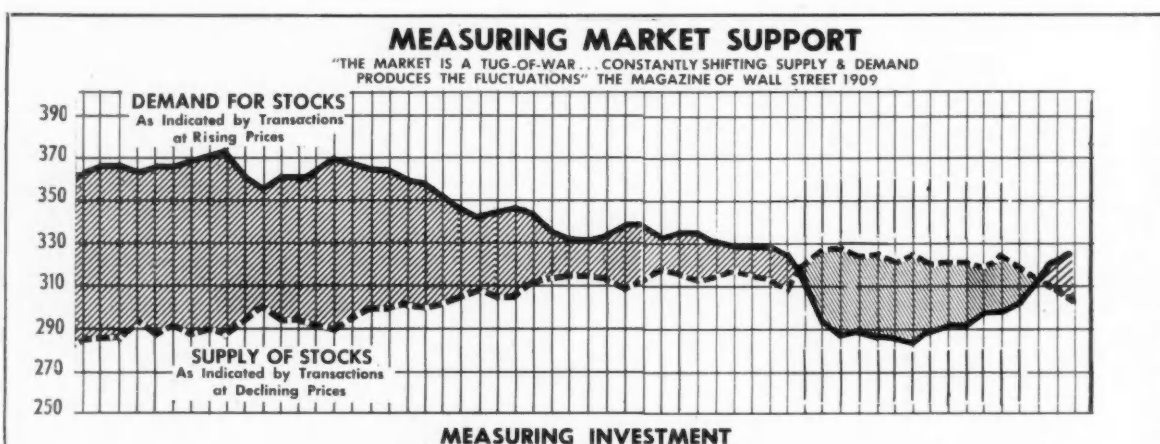
by A. T. Miller

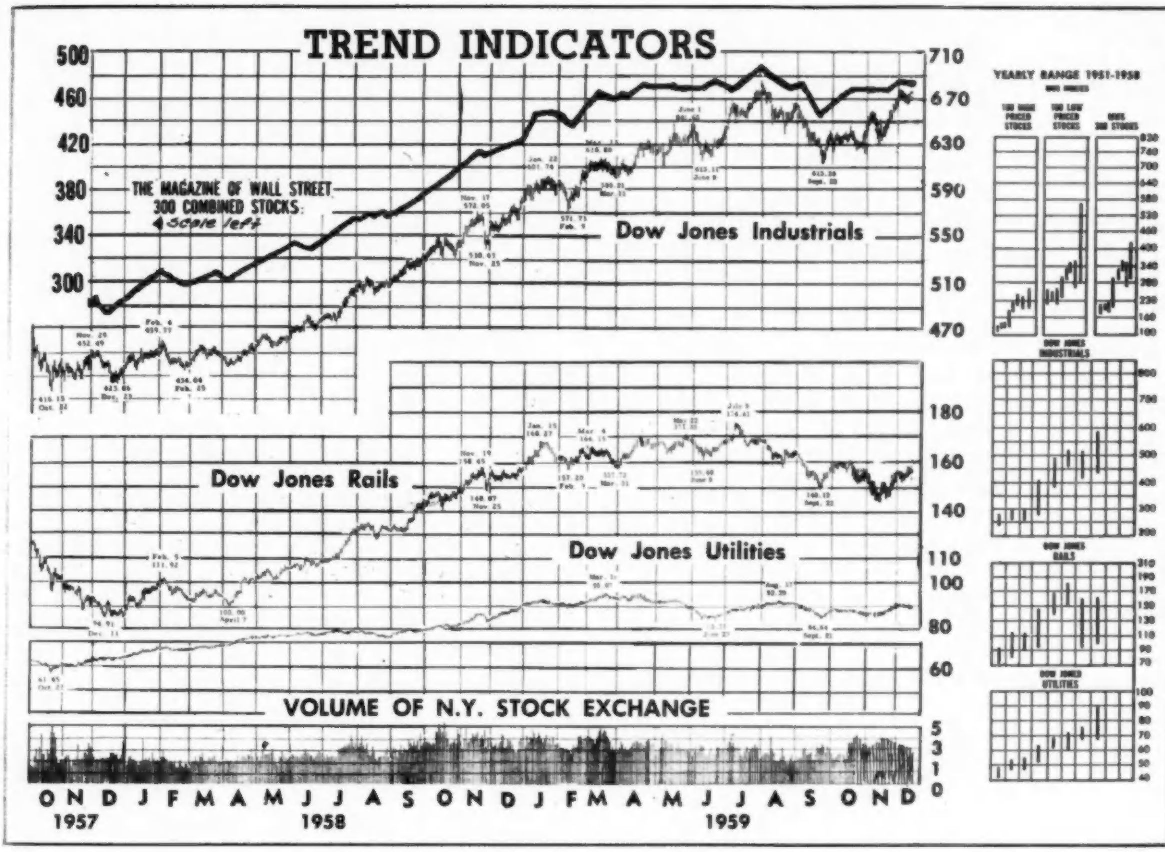
A CHANGE in the character of outside influences is about to take place. With Congress preparing to resume deliberations in Washington a week hence, it is reasonable to look for a rise in political developments that may have a bearing on securities markets. In the event that union leaders order renewal of the steel strike, for example, it seems apparent that vital economic questions will confront the House and Senate. In fact, the White House has intimated that proposals for action will be submitted to Congress in such an emergency.

Business activity, it is generally agreed, will be at high levels at least through the 1960 first half, *assuming there is no renewed steel strike and a rail walkout is averted—with the likelihood of a slowdown in the second half of 1960, leading to the possibility of a recession in 1961.*

It is estimated that the year as a whole, however, will probably be on the plus side, but with gains in the principal measures of our well being more moderate than 1959. On the financial side, there is general agreement that money rates will go still higher.

Although nobody can see around the corners, the above summation seems a reasonable premise on which to base investment thinking at this time. It would be bullish for stock prices over the medium term—if the market had not heretofore so largely discounted possible gains in economic activity well





into the future. But it is not bearish, nor may it become so until we are further along in the replenishment of steel, automobile and other durable-goods inventories, and further along in the tight-money squeeze. If this view is correct, the alternative is a moderate-range market featuring rotating stock-group strength and weakness—which is what we have had for some months in the past.

Where We Stand

At this writing in the final days of 1959, the Dow Industrial Average (only partially representative but still closely-watched) stands less than 2% under its August 3 top after almost duplicating it, and failing to "go through" on a recent test. However, broader measures of industrial stock prices have not yet risen equally near to the summer high and our composite weekly index of 300 stocks stands materially (almost 4.5%) under its best August level.

Thus, December performance into the intial trading session of the year's final week has been somewhat disappointing. Of course, some further rally, perhaps even attainment of a new high by the industrial list, is not ruled out; but the possibility has been made more conjectural by market behavior over the past fortnight, probably putting some investors and many traders in more of a "show-me" mood. Relief from tax selling implies sizable technical rallies in a number of relatively depressed stocks. The general effect should be more evident for a time in the broader market price indexes than in the Dow Industrial Average, which is heavily loaded with Blue Chips.

On the other hand, more early-1960 profit-taking is likely in Blue-Chip and other well-advanced stocks, by holders who have been unwilling to establish gains until they could go into the 1960 tax account.

Implications Of 1959 Pattern

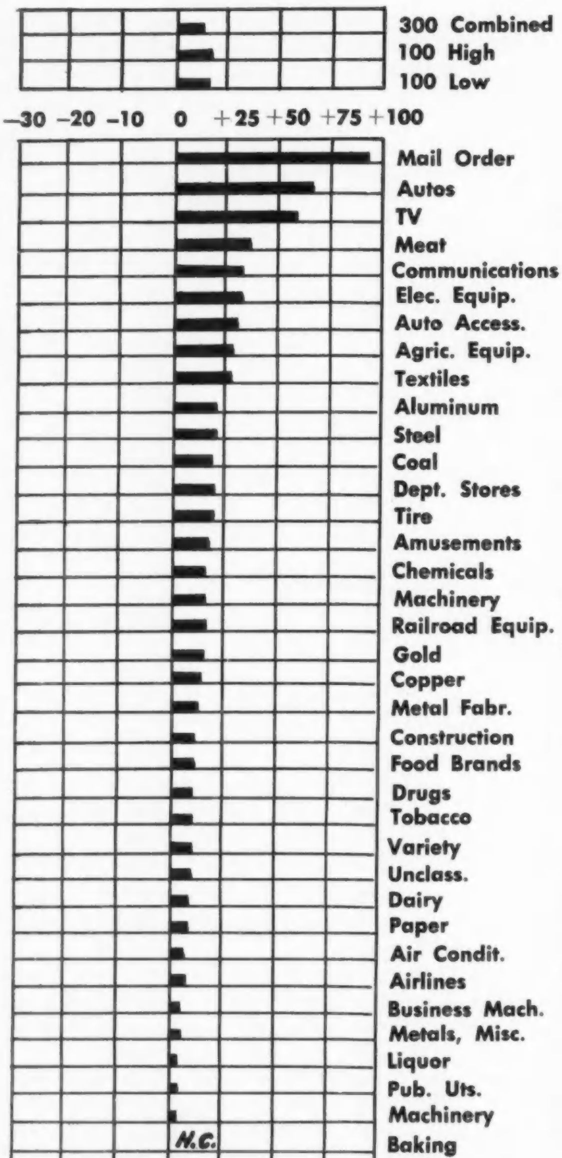
Because it shows the slowing uptrend momentum forecast here a year ago, the 1959 market pattern has a definite bearing on 1960 potentials, making a brief review appropriate. What stands out sharply is that the year's indicated net rise in the vicinity of 12% for our weekly index of 300 equities, *is less than one-fourth its gain in 1958, when business conditions were less favorable than in 1959, but when the credit-supply and money-rate factors were easier.*

It is significant that the broad market outgained "the Dow" in 1958 but in 1959 lagged behind it—and behind the Blue Chips and favored growth stocks generally. Unless materially enlarged in the few remaining days of the year, the Industrial Average's full-year gain (about 15% at this moment) will be less than half of 1958's 34.2%. Deterioration in performance is pronounced in the rail average, which rose nearly 63% in 1958 but has eased by over 2% net in 1959; and in the utility average, which is currently off 4.4% on the year, against a 1958 rise of over 32%. *There is no basis for assuming that a bull market which has become more feeble*

MARKET ACTION OF STOCK GROUPS

Percentage Changes

DEC. 24, 1950 TO DEC. 18, 1959



over a year's time, and which has been "in suspension" now for almost five months, will magically regain earlier vigor.

Market Vs. Business And Money Rates

It is argued by some that the expectation of active business and high corporate profits in the new year's first half should facilitate a further market rise of some proportions. But the market is often out of gear with production and profit trends. Note that the market rose for over six months while the 1957-1958 business recession was still in progress, and did not reach its low point until April 1958.

Because of the increased role of sophisticated investors, including fund managers. and of emphasis on Government fiscal policy and Federal Reserve credit policy, the market tends to run further ahead of the business cycle than ever before. *By the time the business recession became mildly visible to the naked eye in October, 1957, the industrial average had completed its full adjustment in a three-month period, with a fall of 101 points.*

It then headed up under the spur of rising Federal spending and official easy-money policy, anticipating business revival by about six months—and coinciding with the high point in short-term money rates of that period.

This was also true in the recent past, when a nine month decline in the market to September 1953, largely discounted the 1953-54 recession before it became visible, following an extended period of progressive money tightening by the Federal Reserve. Subsequent easy money spurred the market well ahead of business recovery. To illustrate, the rate on three-month Treasury bills was cut from a 1953 high of 2.33% to 0.65% by June of 1954. As revival accelerated, the credit brakes were again gradually tightened. *The 1953-1956 market advance ran out of steam by April, 1956, with the industrial average thereafter held to a range of less than 13% for some 15 months.*

The Present Situation

The record cited is not of mere acadamic interest. Money factors have a direct bearing on the stock market cycle, and they sooner or later stimulate or retard the economy. Hence, brief attention must be given to more recent developments. In countering the last recession, the Reserve eased credit into June, 1958, when the Treasury bill rate was down to 0.88%. Due to the speed of the business revival, the Reserve permitted tightening money with less than the usual delay. Thus, by last January the bill rate was up to nearly 2.84%, intermediate and long-term money rates were proportionately higher—and the stock market had put the fastest phases of its 1957-1959 rise behind it.

At this time, with over-all market progress halted for some months, the Treasury is paying about 4.67% for 13-week money, while yield on the Dow Industrial average is about 3.1%. Money will get tighter until business slows. *The conclusion seems inescapable that the bull market—if it did not top out last summer—is living on borrowed time.*

Cross-Currents In The Market

Variations in 1959 performance of our weekly stock-group indexes are charted on the preceding

SOUND ADVICE FOR INVESTORS IN TODAY'S MARKET

1. *Do not be lulled into serene complacency by the exceptionally favorable market conditions prevailing during most of the last decade or so. They cannot continue indefinitely. Popularity of stocks is as extreme now as was unpopularity in the long prior period. Yet there are problems to be met before hopes for the "golden 1960's" can be realized. Our world economic, financial and diplomatic leadership faces challenge. As the labor unions continue to price us out of markets, the Government will be less free than formerly to manage fiscal or monetary policies without regard for international consequences. Tight money could be a bigger market factor than ever before.*

2. *Keep in mind that the market is at an inflated level, making it more vulnerable to even any moderate worsening in the business prospect. Price-earnings ratios of most popular stocks are extremely high, in some instances discounting earnings potentials for a number of years ahead. Dividend yields are far below anything like a normal level, in many cases only 2% or 1% or less. While rationalized by the "growth-and-inflation" theme, this approaches absurdity while bond yields are around 5% or more and 13-week Treasury bills pay buyers around 4.6%.*

3. *At this stage you should put more emphasis on conserving capital, less on trying for short-term or medium-term capital gains at increased and increasing risk. Creeping inflation is not a valid argument against holding or building up comfortable liquid reserves in savings bank deposits or short-term Government obligations outstandingly attractive for high return with full safety.*

4. *Don't go overboard in enthusiasm for electronic-spage-age stocks. Market vogues come and go. You can make money on them in early and middle phases, lose in the late stage. We remind you of the now forgotten and deflated uranium-stock boom of just a few years ago. There were earlier periods of temporary popularity for aircrafts, air line issues, rayon stocks and other groups not highly regarded at this time.*

5. *Always avoid assumption of too much speculative risk. This is all the more important after a long and large market rise. Few can afford to speculate with more than a moderate portion of total funds. Weigh your family obligations and finances, including reserves for contingencies. Reckon with the consequences of possible losses.*

6. *Don't "play the market." Concentrate on carefully appraised values of individual stocks. Be patient with a good stock when it lags. But don't stay "married" to an inferior stock which has proved that you were wrong in buying it. If you hold sound stocks on a low-cost basis, there is no sense in shifting to a "sell-everything" policy because of interim market uncertainties, thus risking loss of an advantageous investment position. But where large profits exist, it can be good policy to do enough selling to write down, if not write off, original costs.*

page. Two things of general significance stand out.

► First, the low-priced stock index moved about in line with the market and gained slightly less than the index of high-priced stocks, whereas it widely outgained both in 1958. This is suggestive of a mature bull market. At times (notably in late 1928 and early 1946) low-priced stocks have topped well ahead of the industrial average.

► Second, nine of the stock groups lost ground in 1959, whereas none did in 1958. This, and small gains in some other groups, is suggestive of market deterioration. More groups could shift into disfavor in the period ahead. Altered patterns of selectivity will become recognizable as they begin to form. Watch future issues of the Magazine for guidance.

● *Guess-estimates of the 1960 rise in gross national product* range mostly from 4% to 5%, or roughly half of the 1959 gain. ● *Personal income and spending* might be up around 4%, against roughly 6% in 1959. ● However, *rising consumer debt*—for some time outrunning income—could affect later sales of automobiles and other durable goods, and hence will bear watching. ● Little change will be seen in the *gradual rise of government spending at the state and local levels.* ● The brakes will be kept on *Federal spending.* ● Total *building outlays* will do well to approximate 1959's, with *residential volume* well down. ● *Plant* and *equipment outlays* may rise 7% to 10%, but will not exceed the peak 1957 level. ● Inventory rebuilding should not need over six months of high production.

Profiits and Dividends

The slow *over-all rise in prices of goods and services* will be extended, but it will become more difficult for sellers to pass along higher wage and other costs. Margins could become less satisfactory as the year proceeds. Therefore, forecasts of profits and dividends for the year as a whole must await further clarification.

Forthcoming year-end financial statements scarcely can provide any unusual cheer. Shortages in raw materials will handicap earnings in the final three months of 1959, while threat of another tieup in late January would serve as a restraining psychological influence. These are market factors of first importance, and if, at the same time, international affairs should become unsettled by unexpected problems, the stage could be set for a winter correction of sizable proportions.

We therefore suggest investment caution, weeding out of inferior or questionable holdings on rallies, the upgrading of portfolios along conservative lines.

Monday, December 28.

PART ONE

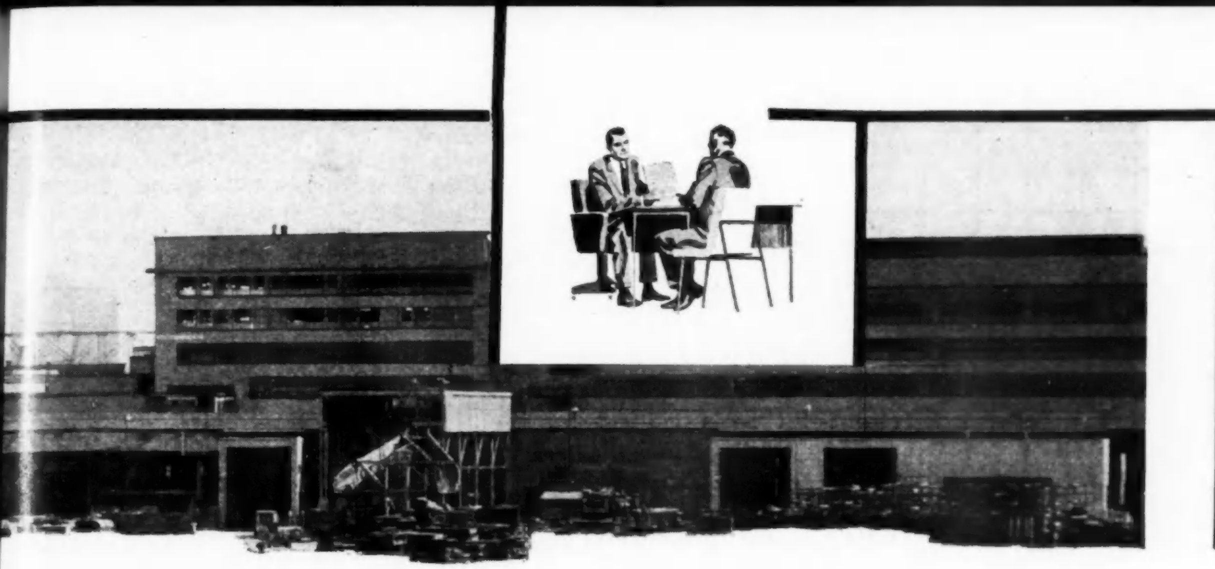
1960
Outlook for Leading Industries
—Which offer best prospects

By GEORGE W. MATHIS

1959 began on a high note with all segments of the economy expanding rapidly after the brief but severe shock of the 1957-1958 recession. The close of the year, however, struck a discordant note compounded of labor strife, disrupted production schedules and shortages of basic materials such as steel, iron ore, copper and available shipping space.

This disharmony opens the year 1960, providing an inauspicious beginning for the decade which has been dubbed in advance the "golden sixties." As these words are written the threat still exists that the steel strike will be resumed on January 26, 1960; transit labor difficulties beset New York, Pittsburgh and a host of other major cities; a longshoremen's strike is a distinct possibility early in the year; and overhanging the entire nation is the threat of a disastrous rail strike in the Spring. Moreover, later in the year negotiations will begin in the electrical and electronics industries and the United Auto Workers will attempt to impose their will on the nation's aircraft producers.

The predominance of labor strife as an economic force, of necessity throws a cloud over all business and stock market forecasting for 1960. By all odds the opening half of the year should be a good one since much of the business that was lost during the strike torn months of July through October 1959 should be compressed into the next few months. But this presupposes no new walkout by the steelworkers. It must be pointed out, moreover, that even a brief resumption of the strike will leave little time for business to push production and shipments hard enough to beat the impending rail strike near mid-year. In effect, labor, whether by design or not, is executing a massive pincers movement on busi-



ness activity in which any resumption of the steel strike squeezes off vital production time between two potentially disastrous strikes.

Outlook For 1960

Adding to the complexity of 1960 is the fact that it is a national election year, a factor which can be counted on to discourage a hard anti-labor stand by the Congress and prospective candidates. In addition, it is doubtful that in an election year the government will make any radical changes in fiscal policy that might be disruptive of employment or interfere with the massive outflow for subsidies and welfare funds.

Of course, if labor difficulties are solved easily, 1960 business—at least in the first half—will be excellent. Capital spending is expected to rise by 10-15%, defense funds will be as plentiful as in 1959—durable good production will rise rapidly after its starvation diet of steel—construction will remain high despite some decline in residential building—and consumer spending can be expected to move on to new heights.

In fact, Gross National Product should cross the \$500 billion mark during the year. Unhappily, the labor situation poses a big "if" in the picture, and one that cannot be ignored by investors as they appraise the outlook for individual industries and companies in the year ahead.

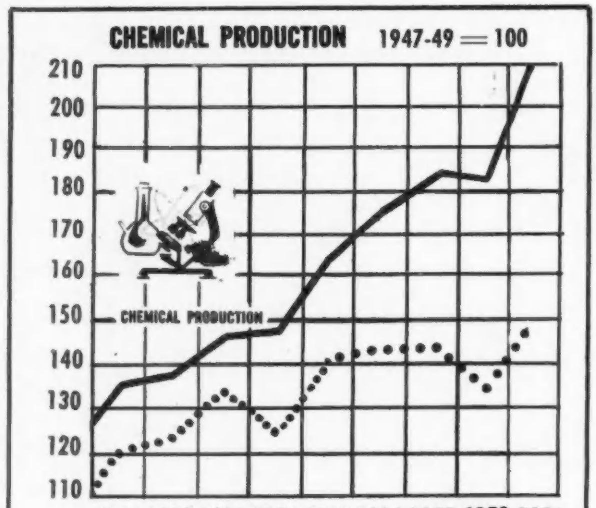
Within this framework, the balance of this article and Part II to appear in the next issue of The Magazine of Wall Street, will concern itself with the 1960 prospects for our leading domestic industries. For the picture, as it affects individual companies, the reader should follow closely our special 1960 Industrial-Investment Reappraisals of Companies in major industries, issue-by-issue, which will appear as financial reports are released.

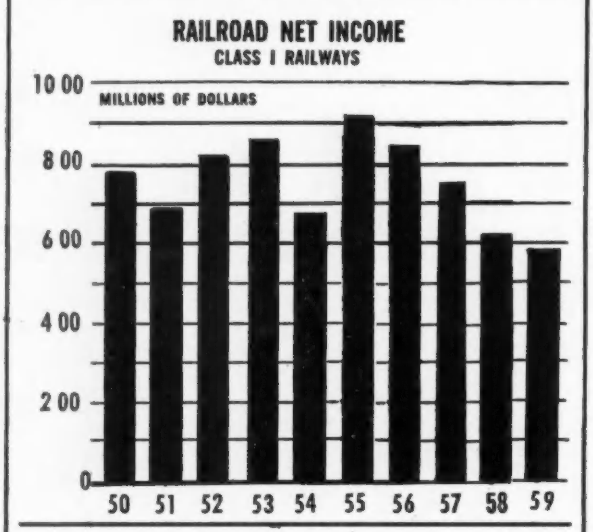
Automobiles—Our December 19th issue carried an advance story on this industry, dealing with the prospects for early 1960, indicating that the 1960 model year should be a rousing success. It was a pity that the new models had no sooner begun to flow from the assembly lines that steel shortages cut production short. General Motors was shut down completely for a month, Chrysler maintained spotty production at best in November and early December, so that all the makers were disrupted to some extent. Ford, with its own steel producing facilities fared better than the other majors, and as a result is well ahead of Chevrolet in their annual production race. But Ford, too, had its share of strike difficulties.

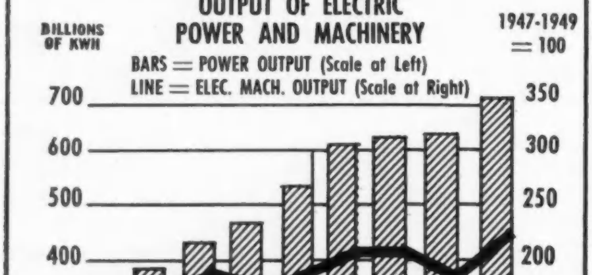
As the new year opens, production schedules are still disrupted, cutting down the chances for a 6.5 million car year. However, the pace of sales should be brisk once dealers can get the cars they are so avidly seeking to meet the demands of an eager public.

What will happen after production is back on schedule is conjectural. There is the possibility that much of the early demand for cars stems from fears of shortages and that once cars are available the demand will become less feverish. Nevertheless, demand for the new small cars should hold up well. Certainly there has been no diminution of the public's craving for lower priced cars as evidenced by the continued high sales of foreign makes, and the interest in our domestic compact cars. All in all, barring a resumption of the steel strike, the auto makers should have a fair year with Ford and American Motors leading the profit parade. However, the latter half of the year will be most important, since it will hold the key to future performance of the car makers.

Tires and Rubber—The early promise of a banner year in 1959 failed to materialize for the rubber industry. The steel strike cut car production, reducing original equipment tire demand while other industrial disruption cut down the demand for







plastics and hard rubber goods. Moreover, price cuts hit the industry at midyear, and by year-end it still had not stabilized.

In the year ahead, however, if the steel and rail strike do not throw another monkey wrench into the machinery, there should be a resumption of the upward earnings trend. Much depends on the auto industry, of course, and this in turn depends on the steel situation. In general, however, unless there are serious disruptions, the combination of rising sales and slightly lower costs should raise profits somewhat.

It needs pointing out, however, that the excellent cost reduction that has gone on in the rubber industry for the last few years is slowing down. Wages are creeping up, eating away some of the advantages of the broad swing to synthetic rubber as a basic raw material. As a matter of fact, the full brunt of the recent 10¢ an hour wage increase will be felt in 1960.

Replacement tire demand remains a bright spot in the rubber industry outlook, assuring the companies of reasonably good earnings regardless of other factors. *Growth, however, remains tied closely to the auto industry, placing a big question mark in front of any rubber industry projections.*

Railroads—The nations railroads can be expected to score a big upswing in traffic revenues in the opening months of 1960. *But they will have to if they are to make up some of the $120 million in net revenues they lost because of the steel strike, and if they are to build up reserves to meet the retroactive pay raises that will be an integral part of their labor negotiations during the year.*

The eastern roads which service the steel and coal centers were particularly hard hit by the steel strike but are now recovering rapidly. On the other hand, the western carriers are feeling a delayed action pinch as cross-country shipments are just beginning to decline in response to steel-imposed production cutbacks.

For the industry as a whole 1960 should be a good year. Signs are already appearing that freight cars will be in short supply, indicating that the carriers may be one of the few industries with *under rather than over-capacity.* The need to build new cars and repair old ones will cut into profits, but if labor strife can be kept to a minimum, a good first half in 1960, and only an average second half would mean favorable earnings for the industry—and excellent ones for selected rails. (See Rail feature in this issue.)

Unfortunately, it is impossible at this juncture to predict the outlook for labor peace. If the steel industry wins its fight against featherbedding it will strengthen the carriers' bargaining position, but may also lead to a bitter strike. Featherbedding is a vital issue for the rail unions and one they will not back down on easily. Hence, investors should watch the eventual steel settlement closely for clues to the rail situation. A wage increase would hurt, but not as much as a work stoppage. A defeat on the featherbedding issue for the carriers, however, could mean the end of managerial control over costs. A strike is a distinct possibility, unless the Government takes direct action to stop one.

Rail Equipment—1959 began as a promising year of recovery for the rail equipment makers, but the onset of the steel strike hit two ways. Railroads cut back their spending, and steel shortages prevented deliveries on many orders that remained on the books.

For 1960 the outlook is good, however. Unless that same old devil, labor strife, interferes, shipments will rise rapidly as steel supplies are built up. Furthermore, the deep shortage of rolling stock will lead to important ordering of cars and replacement parts by the carriers once the outlook for steel has been clarified.

Of equal significance is the fact that the roads can be expected to continue their policy of automating once they are assured of a steady flow of cash from operations. Hence, the outlook for the makers of signal equipment and automatic switching and loading devices should perk up in early 1960.

Rail equipment spending usually moves in sharp peaks and troughs and the current situation is no exception. However, the recent success of piggy-back operation indicates some progress in arresting the inroads trucks have made on rail traffic. If it proves more than transitory the rail equipment makers may experience several years of rising orders for specialized equipment.

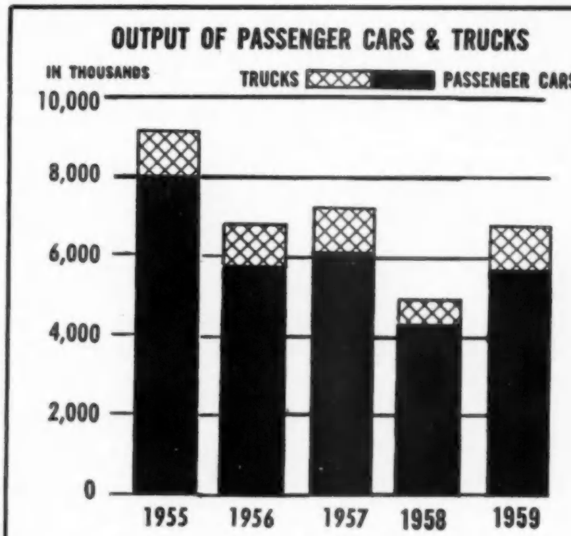
Diversification into electronics and defense business has ironed out the sharp earnings swings for many of the equipment makers and lends promise of greater dividend stability in the future. Nevertheless, their basic business will still move in wide swings, holding down the investment quality of the groups.

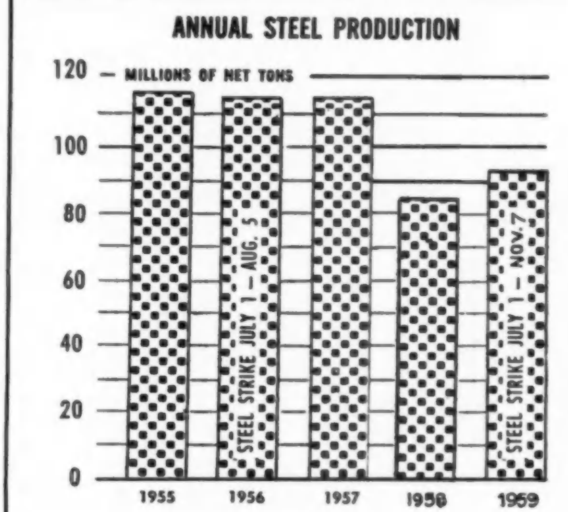
Steel—The steel industry, of course, holds the key to 1960. Steel is the basic production material for a host of durable goods and consumer industries. Without it, as we have seen all too painfully, the production wheels of the economy come to a halt.

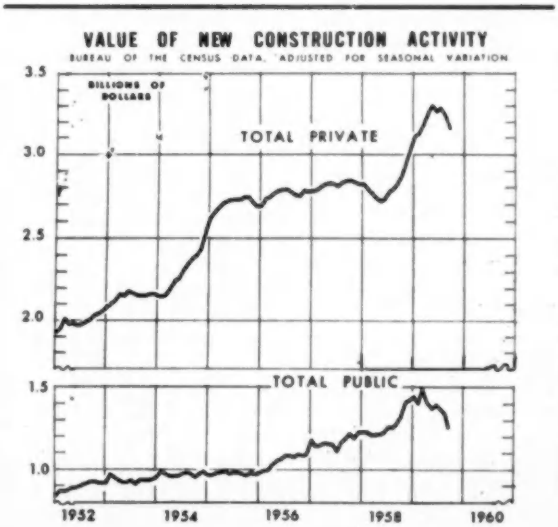
Without a ouija board it is impossible to predict the outlook for steel, since everything hinges on whether or not there will be a new walkout after January 26th. One thing is certain, however. If the strike is settled before then, the steel industry will have its biggest first half year in history. Inventories of steel are so sharply depleted that the industry could run at full capacity for at least six months just to fill up the pipelines. The result would undoubtedly lead to record earnings for the companies.

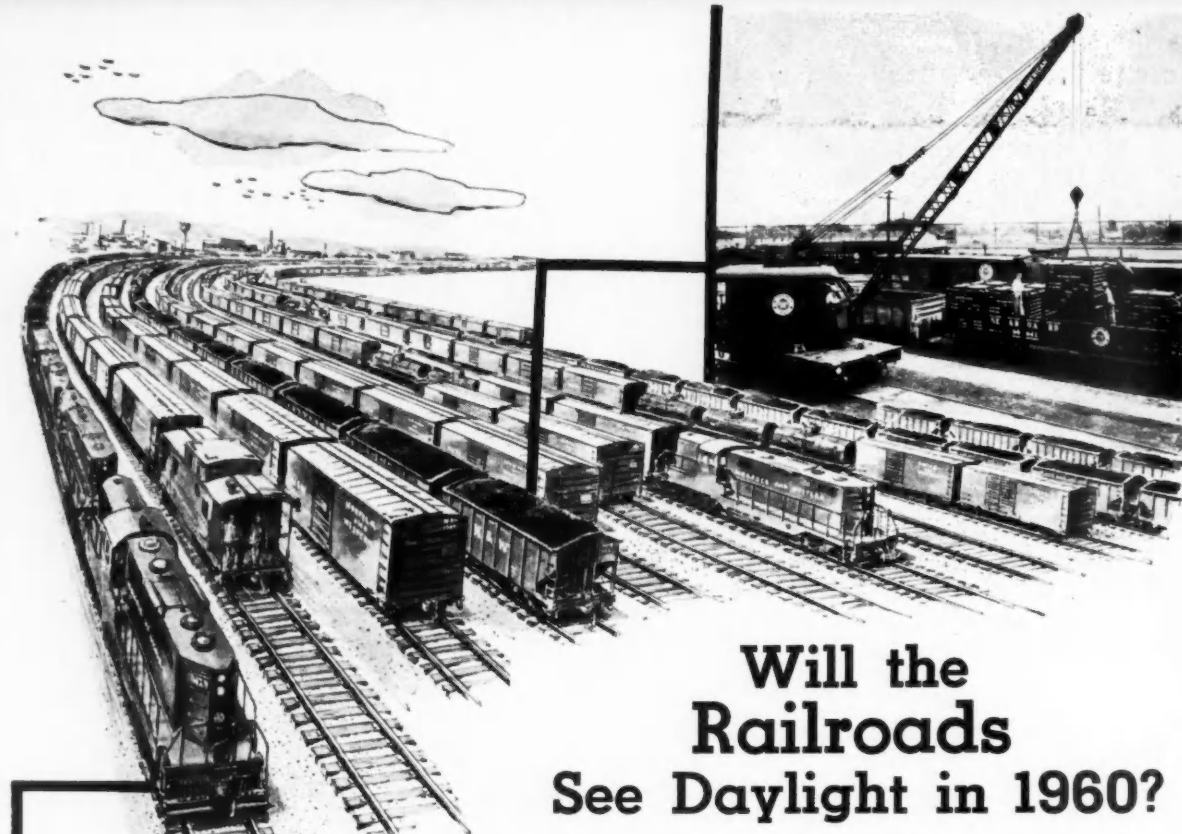
Hence, the steel industry represents an all-or-nothing bet. A renewal of the strike could, if it lasts any length of time seriously affect earnings for the entire year. *If there is no strike resumption, the industry will probably top the 1955 record of 115 million tons of steel produced and score its biggest earnings year ever.*

Investors should be cautioned, however, that all through the strike the steel shares remained high and hence have discounted in advance a good deal of the sharp earnings increase that may materialize. Conversely, only a sharp earnings rise can justify the current prices of steel stocks. Therefore a resumption of the strike could lead to a bad break in steel shares. It should be recalled that 1958 was a bad steel year. 1959 should have been good, but was not because of the strike. *(Please turn to page 430)*









Will the Railroads See Daylight in 1960?

—Those that will—and those that won't

By ROBERT B. SHAW

- **How automation, among other new innovations, can resuscitate this strategic form of transportation**
- **Need to solve the problem of passenger service now disrupting life in outlying areas . . . can facts of economic life bring labor adjustment?**
- **Breaks down the position of the various roads by areas —and shows those that are strong and in a position to make further gains—those likely to remain static— or decline further**

THOSE who think that the railroad industry is in decline, have overlooked the driving power in self-preservation, and what can be accomplished in this wonderous revolutionary age by adapting some of the miracles of creative effort to the problems at hand, from which American industry has already benefited so greatly.

Two recent events have significance for the investor in railroad securities, one in the dream stage (it isn't even on the drawing board), and the other immediate.

Automation for Railroads?—A few weeks ago a New Jersey Central diesel locomotive idling in the Jersey City yard broke away and ran 25 miles unscheduled and untended down the track, until it was brought safely to a halt by a rescue engine. Although an embarrassment to the company and the subject of investigation by several governmental agencies, this unexpected peregrination could have some deeper meaning for railroad advocates. For what other type of vehicle could run driverless for so many miles without inevitable disaster? *This escapade demonstrates anew that the railroads, alone among all general freight carriers, could be adapted to completely automatic transportation.* Of course, the realization of such a status may be a long way off—but it is intriguing for long-shot investors to think about.

Rise in Carloadings—Of more immediate import is the final emergence of weekly carloadings above the year-earlier period, after so many months of strike devastated results. Through June of the year just ended carloadings consistently exceeded the corresponding weeks of 1958. But then, in mid-July disaster—in the form of the steel strike—intervened. Carloadings dropped off sharply just at the time they should have started climbing toward their seasonal peak. Thereafter, this essential indicator of traffic volume continued at its lowest level for all recent years, until the week of November 21, when loadings finally edged above the horizon of the year-earlier level.

The event of the steel strike had a severe impact upon earnings of various roads serving the steel-making areas, and upset the beginning-of-the-year expectation of moderate improvement for the industry as a whole.

But despite this blow the picture has not been as black as it might have been. First-half traffic, as noted above, compared favorably with 1958's recession loadings. Expenses were held under close control all year. And the post-strike recovery has been rapid, although all the figures are not in yet. Accordingly, final earnings should still be close to the 1958 level. Some individual roads, including such eastern industrial carriers as the New York Central and Pennsylvania, are even expected to report moderate gains.

What's Ahead

Yet, equalling the 1958 performance is scant comfort, for 1958 was the railroads' worst year in a decade. To qualify as even half-way attractive investments the carriers must have some more promising hope for the future. Are there grounds for such hope? Some, at least.

For the immediate future, most traffic is likely to continue to accelerate rapidly as steel-making is resumed and inventories refilled. Earnings will be higher than average for the normally depressed winter months. Expenses, shaved to the bone during the strike, should increase less than proportionately. With no reason—aside from possible major strikes—to doubt the continuation of boom conditions during much of 1960, the railroads should enjoy a better than average year.

Over the longer run hope for a basic improvement in the railroad picture can be found in such developments as merger, automation, divestment of profit-draining services, and the extension of piggy-back. The very natural union between Norfolk & Western and Virginian, which will allow the utilization of lower grades by the heavily-laden coal trains, has just been consummated. The Erie-Lackawanna merger is "in the works," although objections by various parties will delay governmental assent for several months. The combination both of paralleling and of end-to-end roads has special advantages. Regardless of the fact that merger usually spells loss or inconvenience to someone, this process is likely to accelerate considerably in the near future.

Trend Toward Automation Already Exists

The extent to which automation can take over on the railroads is debatable, but it is certain that the main obstacles are human rather than technical. Modern freight yards are already substantially mechanized, the former hosts of car-riders and switchmen having been replaced by complex machines that automatically line up the routes for each car and adjust for load, distance and even wind resistance in applying the retarders. Out on the road centralized traffic control (CTC) serves at once as protective device and train order, entirely outmoding the traditional method of train dispatching via written messages. CTC comes so close to doubling the capacity of a single track that it was originally conceived as a means of avoiding double-tracking as traffic grew; now it is being widely used to allow the elimination of second track, with consequent savings in maintenance and taxes, without reduction of traffic capacity.

Looking Ahead

It is perhaps debatable whether the "fireman" fulfills an essential role on the modern diesel locomotive, but what cannot be doubted is that the universal application of automatic train stops (or continuous inductive train control) would more efficiently perform whatever marginal utility he may now provide. In the more distant future it is not inconceivable that even the engineer could be banished, although this would require as a prerequisite the expensive elimination of all grade crossings. An earlier goal in the labor-saving field would be the introduction of fully automatic couplers, i.e., the connection of air, steam and electrical conduits upon impact. At present only the knuckles lock automatically; trainmen still have to climb between the cars to connect hoses. *It is reasonable to expect that the railroad equipment manufacturers will eventually come up with these and many other automatic devices; the more important question is whether the railroads will have the capital to install them and will be able to overcome union and legislative opposition.*

The Rails—and the Communities They Served

Despite ardent rear-guard action by many aggrieved communities, the railroads have enjoyed an acceleration of the process of removing unprofitable trains since the passage of the Transportation Act of 1958. Many of these abandonments have worked a hardship upon commuters and greater public responsibility for this problem is needed—but that is another story. The railroads cannot be expected to provide a service of this character below cost. Many stations have also been closed and the land sold or leased for real estate development, particularly by the New York Central. Besides trains and stations many branch lines also need to be pruned out, to restore greater vigor to the main arteries. This process evokes hardship that should be studied and corrected.

Profitable Revenue Source

Piggyback now approximates 1% of total railroad freight traffic and is continuing to grow by leaps and bounds. Increasing congestion on the highways and decentralization of industry into suburban areas are twin factors that should promote its further expansion. While piggyback is already a well-established service its final pattern is still to be determined. At present it is offered under several different managerial schemes—railroad owned trucks, private trucks on railroad cars, trucks and cars both owned by outsiders, etc. — and in contrasting physical forms—entire trailers on flat-cars, bodies only on flat-cars, hermaphroditic cars that run alternatively on rails or highway, like the Chesapeake & Ohio's "rail-van." When finally reduced to one or two uniform methods, piggyback should fluorish even more brilliantly.

But piggyback should not be the final innovation. It is possible to visualize a reorganized and rejuvenated express service. Some railroads, like Southern Pacific with its pipe lines, may find opportunities in subsidiary forms of transportation, although such

Statistical Position of Leading Railroads

	Gross Revenues 1st 10 Months 1958 (Millions)	Gross Revenues 1st 10 Months 1959 (Millions)	Percentage Change %	Operating Ratio Full Year 1958	Operating Ratio 1st 10 Months 1959	Net Per Share * Full Year 1958	Net Per Share * 1st 10 Months 1959	Net Per Share * Est. Full Year 1959	1959 Div. Per Share	Recent Price	Div. Yield	Ratings
Atchison, Top. & Santa Fe	$485.9	$527.5	+ 8.5	74.6%	75.7%	$2.51	$1.71	$2.35	$1.45	26	5.5%	A2
Atlantic Coast Line	123.7	129.1	+ 4.3	82.8	81.6	4.04	4.09	5.50	2.50	51	4.9	B1
Baltimore & Ohio	318.4	327.6	+ 2.8	80.7	81.1	5.37	3.71	4.75	1.50	40	3.7	C2
Chesapeake & Ohio	324.5[1]	317.6[1]	— 2.1	71.7	N.A.	6.36	5.09	5.75	4.00	67	5.9	A1
Chic., Milw., St. P. & Pac.	204.3	204.5	+ .08	81.6	81.9	2.73	.97	2.25	1.50	24	6.2	C2
Chicago & Northwestern	180.4	181.0	+ .03	82.9	85.1	d2.16	d6.49	d5.65	—	21	—	D2
Chic., Rock Island & Pac.	173.3	185.9	+ 7.3	78.0	78.3	2.81	2.20	2.50	1.60	28	5.7	B2
Delaware & Hudson	38.6	38.3	— .6	76.6	76.5	2.15	1.67	2.00	2.00	27	7.4	C2
Denver & Rio Grande W.	63.9	62.5	— 2.0	65.2	68.1	1.65	1.05	1.45	1.00	17	5.8	B2
Erie	126.2	128.4	+ 1.7	83.6	85.2	d1.75	d2.41	d1.90	—	12	—	C2
Great Northern Ry.	210.3	213.3	+ 1.4	75.8	77.5	4.52	3.26	4.25	3.00	50	6.0	B1
Gulf, Mobile & Ohio	66.5	68.3	+ 2.6	78.7	76.7	2.32	1.67	2.00	2.00	26	7.6	C2
Illinois Central	218.3	225.3	+ 3.1	78.2	78.9	5.80	3.90	5.75	2.00	45	4.4	B2
Kansas City Southern Sys.	55.4	59.1	+ 6.7	58.8	59.8	8.63	4.23[5]	9.00	4.00	77	5.1	A1
Lehigh Valley	48.3	45.2	— 7.0	91.1	90.0	d2.91	d1.80[5]	d1.50	—	7	—	D3
Louisville & Nashville	187.2	189.9	+ 1.4	82.8	80.4	5.44	3.96	5.70	5.00	76	6.5	B2
Missouri Pacific "A"	241.5	254.2	+ 5.2	76.6	76.0[5]	8.42	6.17	8.25	2.40	45	5.3	C2
New York Central	539.3	572.0	+ 6.0	85.2	83.9	.62	.55	1.00	.25[2]	29	.8	C1
N. Y. Chicago & St. Louis	116.3	124.1	+ 6.7	73.0	72.0	2.52	2.43	3.00	2.00	31	6.4	B2
N. Y., N. H. & Hartford	123.5	120.6	— 2.3	84.1	85.6	d6.24	d9.38	d9.00	—	6	—	D3
Norfolk & Western	169.9	167.0	— 1.7	65.5	62.2	7.57	7.05	8.05	4.70	100	4.7	A1
Northern Pacific	149.7	155.5	+ 3.8	79.9	79.8	3.68	3.25	3.80	2.20	47	4.6	A1
Pennsylvania	698.5	736.0	+ 5.3	84.7	82.6	.27	d .02	.60	.25	16	1.5	C2
Reading	88.2	88.2	—	83.9	84.4	.34	d .70	—	.50[3]	17	—	C2
St. Louis-San Francisco	103.4	110.7	+ 7.1	81.4	79.1[5]	2.71	2.09	2.75	1.00	20	5.0	C2
Seaboard Air Line	127.5	133.3	+ 4.4	79.6	75.9	3.11	2.82	3.50	2.00	33	6.0	B2
Southern Pacific Sys.	540.8	583.4	+ 7.8	80.1	76.9	2.05	1.65	2.50	1.12	22	5.0	B1
Southern Railway	209.7	224.9	+ 7.2	72.6	68.9	4.21	3.59	4.75	2.80	52	5.3	B1
Union Pacific	416.3	430.6	+ 3.4	73.5	73.8	3.29	2.16	3.00	1.60	31	5.1	A2
Western Pacific	43.1	45.1	+ 4.4	75.1	75.7	8.83	6.61	8.00	3.00[4]	66	4.5	B1

*—Before funds.
d—Deficit.

1—1st 11 months.
2—Declared 12/10/59; payable 1/25/1960.
3—Deferred action 6/23/59.

4—Plus stock.
5—9 months.

Rating Key: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

ventures are still generally blocked by legislative fiat.

Labor the Immediate Problem

All of these developments are, however, remote as compared with the immediate problem: the general strike confronting the railroads in February. Existing work agreements expired on November 1. The brotherhoods demanded a 14% wage hike plus cost-of-living. Management countered with a proposal for a 15 % reduction in pay together with work rule changes that would eliminate excess firemen and brakemen, revise the obsolete mileage basis of payment, and eliminate arbitrary—and costly—boundaries between divisions and between yard and road service. These featherbedding practices are estimated as costing the carriers $500 millions a year, or about 5% gross revenues.

While the positions of the two sides are wide apart, strike action has been postponed, under the Railway Labor Act, for 90 days. What will happen then may depend largely on the steel settlement. An easy surrender by the steel industry would undermine the bargaining power of railroad management. A renewal of the strike, however, would stiffen public and legislative attitudes, and the rail unions might find it diplomatic to avoid provocative action at such a juncture. Any prediction of the outcome is risky, *but it seems likely that a prolonged railroad strike will be avoided and that settlement will be made on the basis of a moderate wage increase and a substantial revision in working rules.* On the latter point the unions seem to sense that their position has become unreasonable. Any wage increase will be burdensome, but a continuation of the trend that has already reduced railroad employment from 1,040,000 in 1956 to 800,000 at present could provide offsetting economies.

The Rail Investor

Any investor must, of course, participate in individual companies, not in the industry in general. This suggests the question as to why, when all railroads have a common 4′ 8½″ guage and function as units of a single national system, some of them have enjoyed unbroken prosperity while many others are on the ragged brink of insolvency. The answer is both historical and geographical. Many of the earliest roads, particularly in the Northeast, have inherited expensive burdens and difficult operating characteristics. These would include circuitous routes, frequent grade crossings, and built-in expenses such as the dividends which New York Central is obliged to pay on marginal Boston & Albany's guaranteed stock under a 50-year old agreement. Again, the eastern roads are often burdened by excessive branch mileage, which was probably never economic but which they took over to avert destructive competition.

Middle West Roads

Geographically, roads with minimum grades and curves, such as are encountered in the Middle West, are most economic to operate. It is equally important, however, for a railroad to have important traffic sources, either from on-line industries or reliable connections. Terminal facilities—belt lines and industrial sidings—are valuable for originating and terminating traffic, but are also extremely costly. A freight car can probably be line-hauled for 200 miles for the expense of putting it through a single yard. Ideally situated is a "bridge" road through flat and uncongested territory that enjoys firm traffic relationships with connections at both ends. Such small roads as **Richmond, Fredericksburg & Potomac** or **Toledo, Peoria & Western** come close to this ideal. Usually, however, the position of bridge roads is a little insecure, for they lack control over their traffic sources.

Since some of the desirable characteristics in a railroad conflict with others, the search for a perfect situation is doomed to failure. But to the greatest extent possible the investor should look for the following conditions:

- ► Favorable operating conditions: direct routes and minimum grades
- ► Important industries, mines and other traffic-producing sources on-line
- ► Long-hauls without intermediate terminal congestion
- ► Strategic connections with other railroads or seaports
- ► Limited passenger service
- ► Minimum of branch line trackage

Obviously the transcontinental railroads or the "direct-as-crow-flight" Kansas City Southern rank high by most of these criteria, while the "terminal" roads in New England and the Middle Atlantic states would fall near the bottom of the list.

► The *well-situated transcontinental lines* include Great Northern, Northern Pacific, Union Pacific, Southern Pacific and Santa Fe.

► **Great Northern** enjoys a heavy traffic in iron ore which is likely to expand with the development of the taconite process in the Mesabi area.

► **Northern Pacific** receives very substantial non-transportation income from its important oil and gas operations.

► A *three-way merger* of these two carriers with the prosperous **Burlington**, already jointly owned, is being studied and would produce one of the most extensive rail systems in the country.

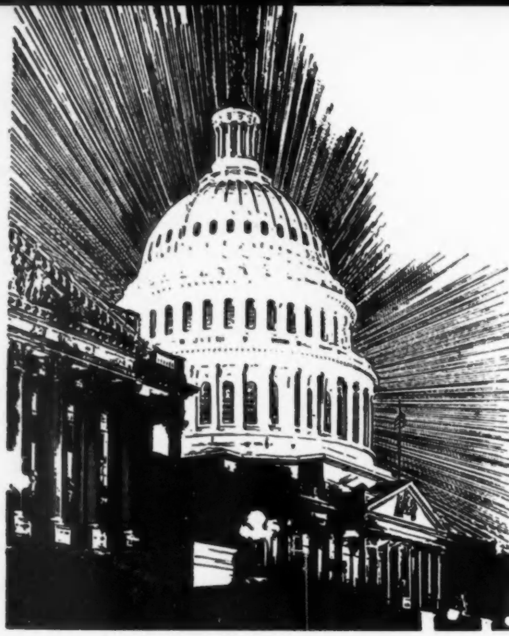
► Blue chip **Union Pacific** possesses many of the desirable characteristics listed above and also takes in non-rail income accounting for very nearly half of its net.

► **Southern Pacific** is strongly intrenched in the burgeoning Los Angeles area, enjoys long hauls to New Orleans and the Pacific Northwest, and participates via connections in Chicago and St. Louis-Pacific coast traffic. Railroad owned pipe lines now contribute a material proportion of earnings.

► **Santa Fe,** with its favorable operating characteristics and extremely low debt is also in the blue chip category. Most of these roads will report 1959 earnings slightly lower than last year's, but should enjoy a vigorous recovery next year.

► The remaining transcontinental, **Milwaukee** is considerably more speculative, and suffers intensive competition from the two "Northerns," but here also the picture is improving.

► The **Western Pacific, Rio Grande** and **Burlington,** although entirely independent of each other, have created by close coordination an additional transcontinental route which *(Please turn to page 428)*



Inside Washington

By "VERITAS"

INVESTIGATIONS will dominate the Congressional scene beginning January 6; this despite necessity for immediate legislation, already disclosed by previous probes and broad general public knowledge. Back of this "fever" to inquire is the ever-present political motive of campaign issues. The investigations could dangerously hamper needed legislation to correct a score of public ills. This would enable both Parties to have issues, but it would be a serious detriment to national welfare. In the background—or maybe to the forefront—is the Capitol Hill wish to "shut up shop" before the early July conventions. It adds up to sensation, but it lacks sanity; and the comment is not the writer's, but the opinion of those on the Washington scene for three decades or more.

WASHINGTON SEES:

Another foreign visit and diplomatic mission by President Eisenhower is very definitely "in the making." This time to Brazil on April 21, when our largest Latin-American neighbor dedicates its new capital city, Brazilia. Present for the event will be top representatives of all the Central and South American republics.

The opportunity to further spread the Eisenhower charm, and thus salve wounded Latin feelings is not one to be missed. This is from unimpeachable sources who regard our rapidly deteriorating Southern neighbor relations nearly as grave as the Red threat to the free nations of Europe.

Known to support the idea are Vice President Nixon, State Secretary Christian Herter and ranking members of the Senate Foreign Relations Committee—all agreed that NATO and other European alliances are valuless without Western Hemisphere solidarity.

The President's Euro-Asian tour, despite the apparent intransigency of French President Charles de Gaulle, has spotlighted the President as a top ambassador and messenger of good will. **Ergo,** he is seen as the ideal man to seize this opportunity to solidify good U. S.—Latin-American relations.

Announcement of his plans to attend the Brazilian event is in preparation—may be published a few days hence.

LOBBYING during the upcoming Congressional Session will reach an all-time high. Some 35 or 40 old-time lobby organizations have already acquired larger business quarters and added to personnel. New lobby groups daily seek office space, plus the services of experienced news and public relations experts. They run the gamut from bigger and better aid-to-education to Zu Zu ginger snaps for Zulus. The comment is intentionally facetious, but only as a means of illustration of the glut of lobby groups now moving in to interfere with the Congress in its hard-pressed job of correcting the abuses of labor and other monopoly segments of the national economy. Most intensely lobbied will be Aid-to-Education, Labor Reform and Tax Revision. This last, tax revision, will be shoved over until the next Congress. Time limitations bar a complete revenue overhaul, but do not preclude practical relief prior to Jan. 1, 1961—some may be effective next June 30, expiration of the present fiscal year.

EISENHOWER'S good will tour not yet completely evaluated, nor will it be fully and properly appraised for some weeks yet. Press reports are glowing, but realists in and out of government prefer to wait his report to the appropriate Committees of Congress, possibly in the form of special communications to House and Senate Committees on Foreign Affairs and Foreign Relations. Public reaction at this point is good. In the meanwhile, both political Parties are avidly scanning the record for possible issues to be accentuated in the 1960 struggle for the White House. Regrettable, to be sure, but bi-partsanship cannot be avoided unless a ground-swell of public opinion overwhelmingly endorses the President's efforts and accomplishments. Like parachutes, minds function when open. And this is certainly a time for open minds, whether in Congress, Government or at the cross roads.

As We Go To Press

Government draft for John L. Lewis, retiring president of the United Mine Workers? Despite his Biblical-Shakespearean denunciations of capital, corporations and big business in general—mostly for theatrical effect—and John L. was the perfect showman—Lewis is a sound economist who knows limit of business' ability to pay excessive wages. Further, he knows that if business is hampered by excessive pay scales there will be resultant loss of employment "down the line." For these and other reasons, Administration may "draft" him for service on any new Commission created to work out solution of labor-management disputes in basic industries. His contempt for the economics and strategies of Reuther, Meany and other moguls of the labor movement could very definitely be a stabilizing influence in future major labor-management disputes. He knows capital's side, just as well as he knows the position of labor. Further, he has a comprehensive knowledge of their interdependence upon each other.

Coal consumuption in 1960 slated to move up around 30 million tons, despite anticipated declines in overseas shipments, industrial and commercial plant consumption and retail sales. The increase will be accounted for by a record-breaking demand by electrical utilities and increased demands by a steel industry which will be working at above average production after the prolonged strike. Parenthetically, it is noted that bituminous coal industry leaders – including the Mine Workers Union – are "certain" the steel strike will not be resumed January 26, expiration of 80-day cool-off period.

Army will modernize tanks to carry missiles with small atomic war heads. Plans and designing are complete; changeover will begin early this year, or as soon as manufacturers can tool up and adjust production lines to demand. Defense forces feel this will be the answer to Russia's massed land power in Europe as opposed to our relatively meagre forces there. A Pentagon source reports that one light tank, armed with a dozen of the A-head missiles, will be "more than a match" for a like number of enemy tanks "as well as 1,500 accompanying troops," explaining that one hit on an enemy vehicle spreads devastation for a radius of 1,000 yards.

Rubber industry, its peak year of 1959 now a matter of History, enters 1960 confident that new records will be scored. Consumption of new and synthetic rubber will move up for anticipated heavy tire and tube demands, as well as for demands for non-tire products. Imports of raw rubber may decline as plans move forward to release around 475,000 long tons of rubber in the Government-owned stockpile, now declared excess to national security needs. Orderly disposal of the excess government stocks will effect important savings to the taxpayers without damage to producers and consumers of natural rubber. Sudden lump dumping of this quantity against an estimated total natural rubber consumpion of 556,000 long tons could be worse than disconcerting. Synthetic consumption will run nearly 100,000 tons in excess of one million. Automotive and farm tire demands, to be at all-time highs, will demand a major portion of the natural and synthetic production despite widely expanded non-automotive rubber uses.

Home-buyer demand for residences has slowed down of late but some pick-up is looked for in the Spring months, although it will probably be of less than normal seasonal proportions. Rising mortgage costs have been a brake on home buying but this should be counterbalanced to some extent by higher incomes stemming from improved business. Increased home building this Spring should help appliance manufacturers, because prospective home owners are now demanding ultra-modern kitchen equipment, home laundries and, in many instances, "cellar to garret" air conditioning. Also, look for greater use of aluminum in

residential construction; this despite recent advance in aluminum pig prices. Further, new developments in production of aluminum sheet indicate it will be an economical means of insulation.

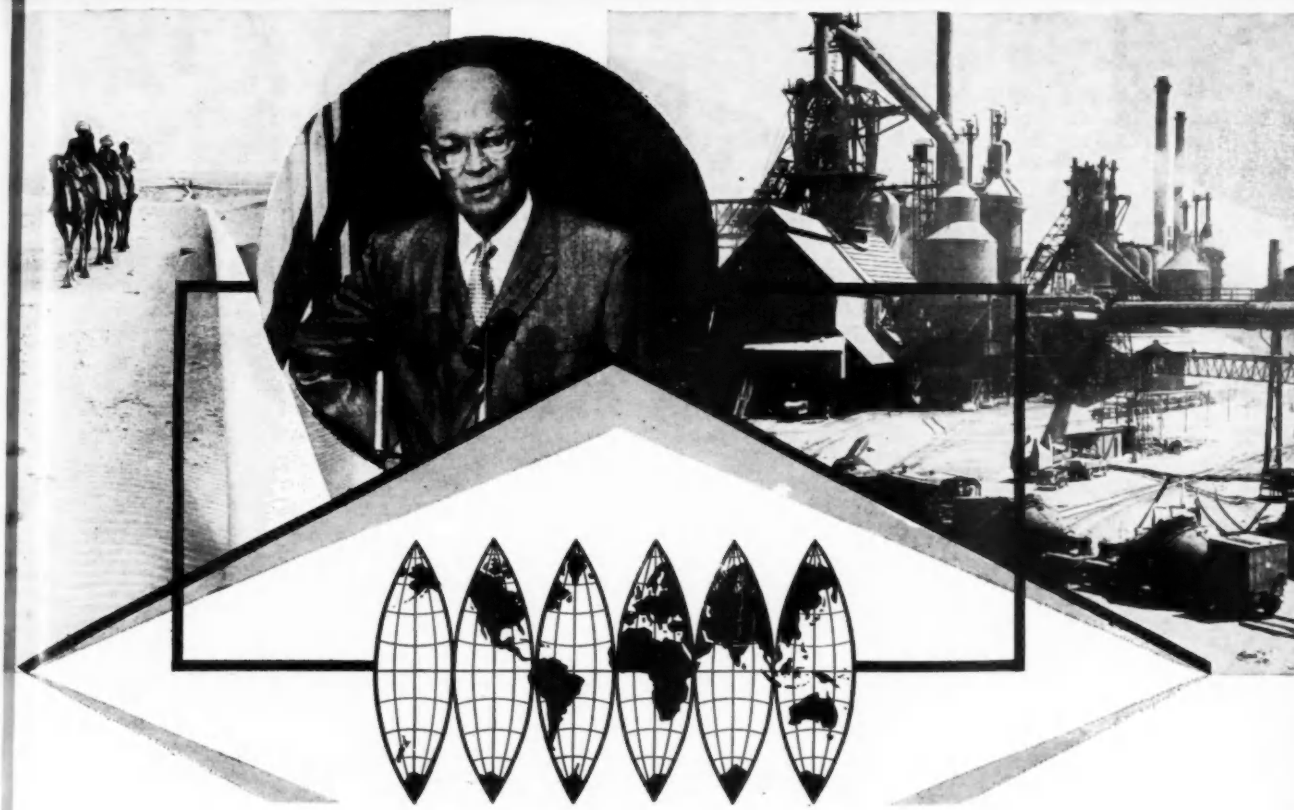
Early passage of $1.25-per-hour minimum wage bill seems a certainty. It may – for political reasons – be deferred a while, if such delay will "make political hay" for the 1960 campaigns. Direct effect will be on small business operations, many of which will have to curtail services, reduce personnel or sell out to larger companies. Direct inflationary effect will be negligible as vast majority of today's workers now earn $1.25, or more, per hour. The cumulative effect, however, will disturb the national economy — could even touch off a new inflationary spiral. Wage groups above the minimum level will strive to maintain their respective differentials. Principal minimum wage bill, S. 1046, by Presidential aspirant Sen. John F. Kennedy (D., Mass.), extends coverage to about 10,000,000 additional workers, primarily in retail and service trades. It has more political appeal than a similar measure by Rep. James Roosevelt (D., Calif.), and it also has the enthusiastic support of the AFL-CIO, whose membership universally earns more than the $1.25 minimum. Passage of the measure with outspoken union support would give the AFL-CIO vast organization advantages in areas where they have thus far made little progress, have even been rebuffed by individual workers.

Space and missile programs to be handled by a single agency? The question at the moment is moot, but Washington "straws in the wind" indicate the possibility. Admittedly both programs run far behind the Russians — both are closely linked and, according to solid Washington thinking, should be unified under one strong directorship, armed with ample funds and virtually unlimited authority to proceed along the lines it considers most desirable. Sen. Majority Leader Lyndon Johnson (D., Texas), Chairman of the Aeronautic and Space Sciences Committee, has publicly laid the blame for our space-missile lag directly on the Administrative leaders "who cannot or will not meet the responsibility." The charge, according to those close to the Texan, was not "political oratory." Rather, they say, it is a clear indication he is readying legislation to create a new Agency under "an almost dictatorial chief who would be subordinate to no one in the race to get ahead of the Russians." In the meanwhile, good intelligence sources in Washington believe the Reds will put a man into orbit at a "spectacularly" early date. This could offset the propaganda gains we have made through the Eisenhower "good will" tour of Europe, India, etc.

"Belabor Benson" is slated to disappear from Democratic National Committee's campaign strategy. This was pointed up about four weeks ago when John Kyl (Republican) easily captured a House vacancy in the Fourth Iowa Congressional District. His Democratic opponent ran on an Anti-Benson platform and took a licking. Kyl ran on the overall record of the Republican Party and won handily. Significance, according to top Washington politicos, is that Benson, one of Eisenhower's two original Cabinet appointees (the other being Postmaster General Arthur Summerfield), is no longer a Democratic "whipping boy," that his agricultural policies are meeting with farm vote favor. In the long-run it may presage a sane Federal farm policy that even the Democrats will have to accept.

Retail sales for Christmas ran at a record dollar high, but pessimists in and out of Government, say they are not significant. Shoppers bought no more, just spent more because of inflated prices. This runs contrary to a private survey which reveals that average family bought more gifts for more people this year than last.

Industrial Construction, which registered $54 billion in 1959 will hit $56.1 billion in 1960 according to a forecast by the Government. Private economists, however, are not as sanguine, pointing out that residential building is due for a slowdown if interest rates remain high. The government bases its case on projected upward trends for public utilities, spurred by the flight to suburbia. This, however, would hardly make up for an expected 10% decline in farm building and a sizeable drop in residential construction.



SIGNIFICANT POLITICAL and ECONOMIC TRENDS AROUND the WORLD

—AS WE ENTER 1960

By JOHN H. LIND

- ► Effect of President Eisenhower's odyssey to Asia—Europe—and Africa
- ► Where turn toward private capital financing in Asia follows disillusionment with Communist China
- ► Good judgment flies out of the window when greed enters the picture in the oil-rich countries

PRESIDENT EISENHOWER's 23,000-mile trip to Europe, Asia and Africa overshadowed all other international news and events of the pre-Christmas season. Indeed, the impact of this unique journey by a U.S. President, on both the United States and the countries visited, appears likely to be felt for a long time to come.

President Eisenhower's trip was much more than a political goodwill tour—it was an adventure in human relations. For it enabled the leaders to take the measure of the President and what he, as representative of the United States, stood for—and to Ike it provided the opportunity to evaluate the attitude of these leaders in relation to the United States—and to freedom. And it gave what Mr. Krushchev calls the "ordinary people" a chance to sense the goodwill of our country, with President Eisenhower as the symbol of what we stand for . . . and they liked it.

His personal contacts with the heads of 11 states included the great ruling countries—the ancient powers of global significance—and new states laboriously finding their way in this revolutionary world. And everywhere he went he symbolized America's most powerful endorsement to date of Free World unity, regardless of the shadings of political opinion in the various countries. Not the least to benefit from all this will be Americans overseas, if only because the political climate will be greatly improved by this clear and dramatic demonstration of the President's great interest in mankind and the peace of the world as representative of the thinking among the people of our country as a whole.

While all the 11 countries on the President's sched-

ule were of importance to the United States, the two focal points of the trip were Paris, upon which the defense of Free Europe will depend, and New Delhi, the key power in Asia in the struggle between communism and the West.

President Eisenhower's journey to Asia was undertaken at a most propitious time following, as it did, the exposé of Red China's aggressive intentions to absorb India as a first step for control of Asia —to be used later as a springboard toward new horizons in conquest. Until quite recently many well informed people felt that the neutralism of South East Asia was only a slightly modified form of pro-Sovietism, and the increasing socialism of their economies was believed to be an unsurmountable barrier against Western orientation.

Yet, under the sharp disillusionment of Peiping's behavior—in the very recent past certain events have occurred which may well indicate a complete shift to the West—and freedom, for not only in India but in Indonesia, too, there now seems to be full realization of Red China's aggressive policies and ambitions. Only a short time ago both these countries were in the forefront of the Asian neutralist movement. In fact, Indonesia's President Sukarno was often thought to be more pink than neutral. Now, however, India is involved in serious border disputes with China, while Indonesia is finding out that its Chinese minority, largely under the domination of Peiping, exerts a powerful and harmful influence on Indonesian domestic affairs.

Now Seeking Private Investment

In India, the realization of the Red Chinese menace has had its consequences not only in political reorientation, but if indications are correct, also in the economic field. Of special significance is the Indian's move early this month to attract more private foreign capital into its mining and oil exploration sector. Until now oil exploration had been controlled largely by the Indian government and what foreign aid was given in this field came entirely from the Soviet Union and Romania. A few months ago, an American expert was invited to study the Indian oil situation. His recommendation that private foreign capital be admitted to develop the country's natural resources was politely listened to at the time, but nothing was done about it until after the Chinese border conflict had started. Then the government announced a switch in policy to permit private investment which will now enable New Delhi to free much needed public funds for such necessary expenditures as agriculture, education, transportation, etc.

The Other Countries Are Catching On Too

But India is not the only Southeast Asian country which has suddenly become aware that serious economic development plans cannot be undertaken without tapping the huge storehouse of private international capital.

Thus, just a little over a month ago, the Burmese Parliament passed a measure that is now becoming standard in a number of countries in the area, namely, a guarantee to private, foreign investors against nationalization for ten years (and this can be extended to 25 years in certain cases) and the offer of three years' exemption from taxes and Customs charges on machinery and raw materials.

A few months earlier, Thailand had taken the same step, and recently the chairman of its investment board was able to announce that 27 projects, worth almost $20 million, had been approved since the passage of the new investment code. Even more spectacular is the Malayan story of private foreign investment. In fact, *Malaya* is sometimes considered the pioneer among Southeast Asian countries in breaking with the socialist-oriented tradition of treating private foreign capital as if it were unclean. *Malaya signed a pact with the U.S. guaranteeing private investors against political risks, nationlization and currency restrictions. Malayan government sources hope to attract over a billion dollars in private foreign investment over the next decade, as a result of these measures.*

Foreign Private Capital vs Government Aid

Thus, economic thinking in many countries of the region has swung away from the idea of having vast construction projects of basic industries financed through foreign government aid and now recognizes that private investment capital from abroad can play a vital role in industrial development. This new turn in economic climate has particularly encouraged American investors to go into the area.

Among recent examples, *are a $2 million cotton weaving mill which to be constructed in Viet Nam, with 49 percent private U.S. participation; the erection of an oil refinery in Thailand and pharmaceutical plants both in Thailand and Hong Kong.*

Of course, there is still much room for improvement in creating a better climate for private capital in free Asia. Furthermore, *Indonesia* is still adhering to a policy of giving priority to basic developments from the monetary aid of foreign governments, over projects financed by private foreign concerns. But a trend can be detected, and it is one which President Eisenhower's personal visit should greatly strengthen.

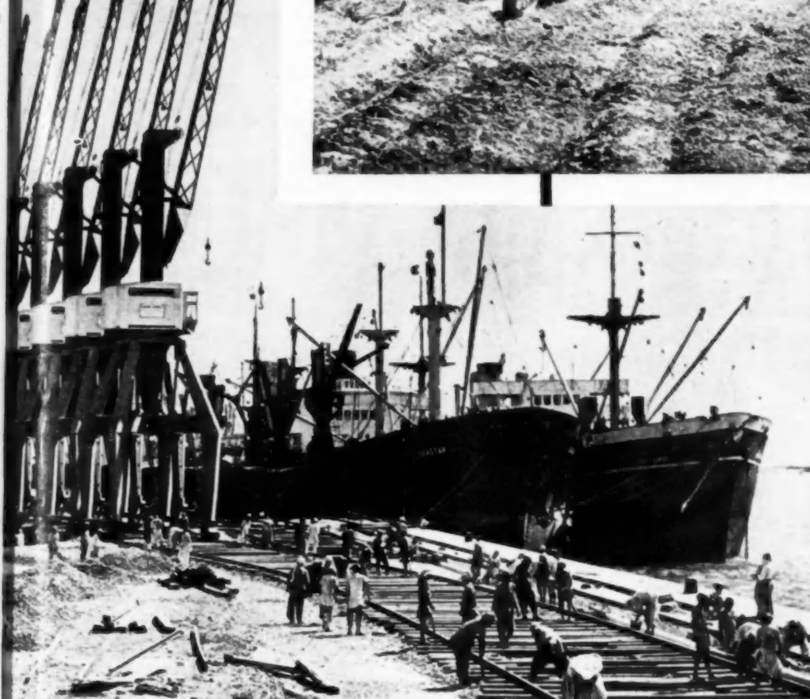
The Reversal in the Middle East

Strangely enough, in the Middle East, an area which owes almost all economic progress to private foreign capital, *the trend seems to be in the other direction.* To be sure, this does not apply to *Iran*, the only country in that part of the world visited by the President. In fact, Iran is in some ways following a trend similar to that of India and Indonesia, as its previously congenial relations with its Soviet neighbor have been replaced by an attitude of formal hostility. Just a few days before the President's visit, Iran rejected a tempting offer by the USSR to develop the country's oil deposits located on the south shore of the Caspian Sea on an 85:15 profit-sharing basis in favor of Iran.

The Oil-Rich Countries

The Arab oil countries, on the other hand, are making increasingly unfriendly gestures toward the foreign oil companies on their soil. At a recent Arab oil conference in Beirut, Lebanon, the following resolutions were adopted, among others:

► *A boycott of all oil companies developing oil in Algeria (to help the Algerian rebels);*



FOREIGN COUNTRIES SPEED MODERNIZATION: The illustrations above show tractors plowing desert land in readiness for planting, expansion and modernization of an important port, new machinery for railway workshops.

► *No new concessions to companies in which non-Arab governments participate (this could mean British Petroleum and Compagnie Francaise des Petroles,* both of which are partly owned by their respective governments);

► *Increased participation by Arab governments* in oil operations and profits (this could mean sharing in oil company profits all the way down to the tank station);

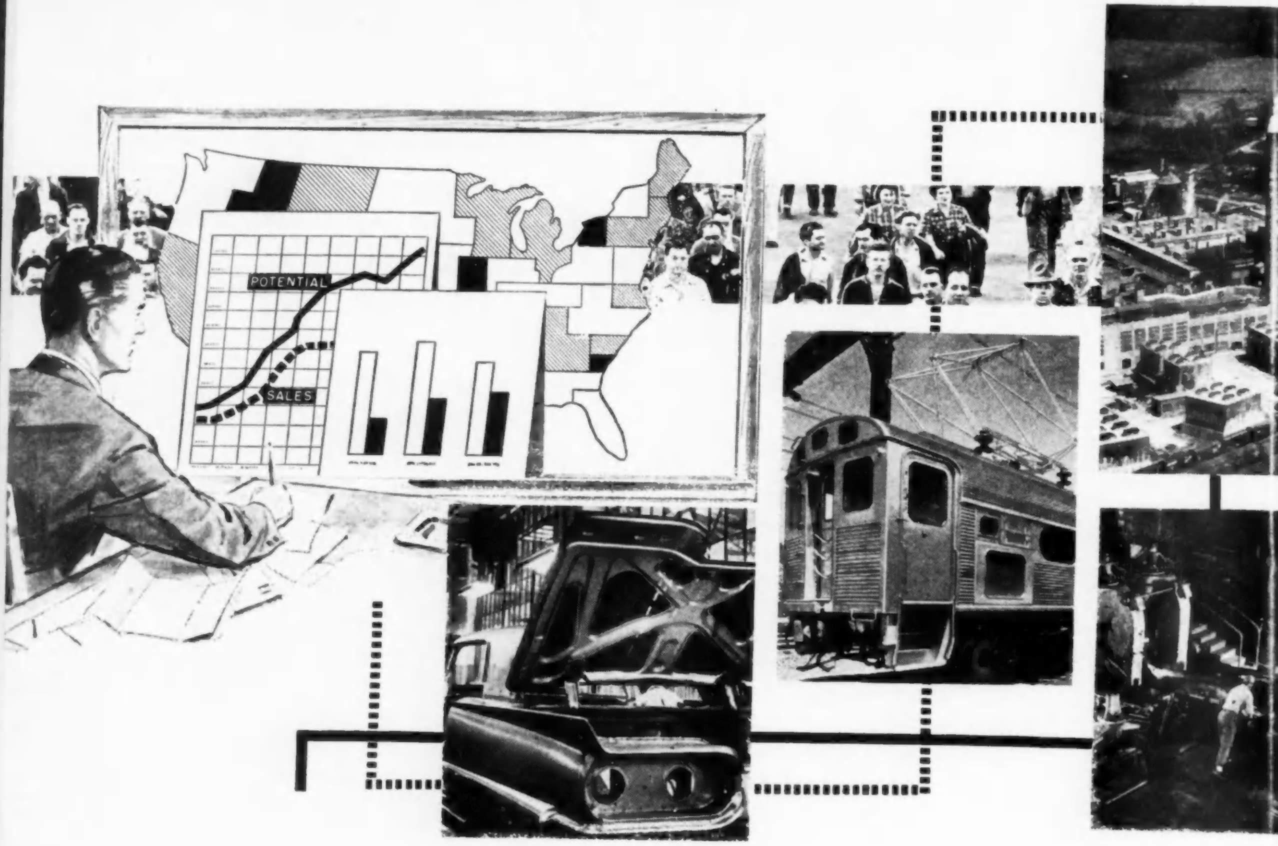
► Priority to Arab companies in new concession grants;

► A request to oil companies to give up their undeveloped concession areas.

None of these recommendations are an immediate threat to any of the foreign oil companies in the area. But all of them are of an unfriendly nature, designed to discourage rather than encourage the inflow of new oil capital into the region. The irony, or perhaps the folly of this policy is that it comes at the moment when the world oil industry is finding huge additional reserves outside of the Middle East. With the gigantic oil deposits in Algeria and Libya constituting an immediate major threat to Middle East oil sales in Western Europe, one might have expected the Middle East governments to provide extra incentives to foreign oil companies to develop Arab instead of African oil.

However, it seems that most Middle East leaders have not yet fully awakened to the new situation in the world oil industry. They still seem to live in the early 1950's when Middle East oil was King in the Eastern Hemisphere. It no longer is. And each day it is dethroned a little more. Hence, the *increasing pressure from Iraq—and, to a lesser extent, Saudi Arabia*—for an increase of their current 50 percent share of oil profits to the 60 percent-plus level decreed last December by Venezuela, sounds almost anachronistic.

If they absolutely insist on it, they may even get it. But it will only hasten the worlds' reliance on other oil sources, just as Nasser's attempt to use the Suez Canal as a political instrument in 1956/57 was the main reason for the tremendous step-up in oil exploration activities in the Sahara. Significantly, Iran has kept conspicuously aloof from Arab oil politics. Instead, its government oil company has formed partnerships with both an American company (Standard of Indiana) and an Italian one (ENI) for the purpose of developing new oil areas. This looks like a much wiser way to deal with the world oil surplus than the Arab countries' restrictive policies. For it will assure Iran not only of sufficient capital to develop new oil resources but it is also likely to give it market outlets both in the United States and in Western Europe. If President Eisenhower has strengthened the forces favoring a continuation of this type of economic planning, his brief stop-over in Teheran *(Please turn to page 433)*



GAUGING 1960 COMPANY PROSPECTS by Order Backlogs-New Orders-Inventories

By WARD GATES

- ► As a realistic sound gauge for appraising the business outlook for 1960
- ► Revealing changes in backlog orders in various areas of industrial activity
- ► Companies showing significant gains in backlogs and new orders . . . and what the backlog-new order picture shows generally

A YEAR ago most durable goods manufacturers were building up good sized backlogs as the flow of new orders, reflecting the end of the recession, built up to a crescendo. Today, the picture is not nearly so clear. In fact, even considering the obvious distortions injected into the picture by the steel strike, there is some evidence that the backlog situation is in a state of gradual change that may gradually slow down activity.

What seems to be happening is that industrial capacity is so large now that orders are filled much more quickly than heretofore, causing backlogs to decline as measured against sales. *Last September, as a matter of fact, backlogs added up to only a little more than three months sales despite the fact that new orders had been climbing steadily all year.* Moreover, the September figures were too close to the starting date of the steel strike to reflect that disturbing event. *What is significant here, is that all through the decade of the fifties there has been a gradual decline in this backlogs-to-sales ratio—a decline which if left unchecked could lead to much sharper cyclical fluctuations in business than we have experienced in recent years.*

Why? Because the trend indicates that durable goods producers are becoming more heavily dependent on a steady flow of new orders than ever before. In the past, backlogs built up when new orders were strong, and the long production cycles in durable goods manufacture smoothed the flow of shipments.

Now, however, with so much overcapacity in all industries, these backlogs are being eaten away with exceptional rapidity, tieing shipments more and more closely to new orders. This is all well and good when the flow of new orders is high, but when it slows down the volatile durable goods sector of the economy is going to have less fat to feed on.

Fortunately, we will not have to face up to this problem immediately. In the wake of the steel strike, inventories have been severely depleted, assuring a steady rise in new orders throughout most industries in the opening half of 1960. In fact, the machine tool industry—a vital barometer in the backlog picture—has already begun to experience a rise in new orders and backlogs indicating that shipments will continue strong for many months.

Cincinnati Milling Machine, one of the largest and most important because of its broad lines of machine tools, provides good evidence of this rising trend. Between June 30, when the steel strike began, and October 10, Cincinnati Milling's backlogs rose to $43.7 million from $35.9 million. In part, this increase reflects a back-up of orders because of steel shortages, but there is no gainsaying the good pick up in new orders in recent months.

On the other hand, **Bullard Co.**, another major machine tool manufacturer suffered a slight decline in backlogs between June and September, despite the rising trend of orders in the industry. The suspicion is fortified that capacity is sufficient to take care of new orders in short order, holding down the backlogs.

Significance of Backlog Change

The emerging pattern of close reliance on new orders has important implications because the durable goods sector swings so much weight in the economic balance of the country. Most segments of Gross National Product are relatively stable from year to year, indicating that cyclical swings stem from a few highly volatile sectors. Among these, new housing starts and durable goods output are near the top of the list in importance. New housing, it is generally conceded, will be less buoyant next year because of tight money. Durable goods production (barring a resumption of the steel strike) will undoubtedly be strong in the first half of the year, but if later the new order rate slows down, the latter half of 1960 could have us at the threshold of another recession. For unless backlogs pick up substantially both in magnitude and in the number of months worth of shipments they represent, durable goods producers will find themselves slowing down as new orders flow in less rapidly.

Outlook for New Orders

Hence, the outlook for new orders beyond the first half of 1960 takes on added importance. A rundown of the outlook in several key industries should help clear up the picture.

In the machine tool industry, new orders have been rising and there has been a small build up in backlogs. However, much of the business in recent months has been coming from abroad, a source of demand not notable for its consistency. In the long run, therefore, the machine tool outlook will hinge on the rate of capital expenditures in the U.S. during 1960. Tentative estimates place new capital spending about 10% higher next year than in 1959, a figure that will still fall short of the record levels of a few years ago. More important, however, is that a 10% rise will not be sufficient to absorb all the productive capacity of the machine tool industry. In other words, backlogs will probably not build up to any appreciable extent, once the initial spate of new orders following the end of the steel strike has been completed.

Complicating the new order picture, of course, is the possibility of a rail strike in the spring of 1960. Thus, although the railroads need new cars badly, the strike uncertainty ties their hands. Already, a shortage of cars is holding down the output of coal and is interfering with the flow of iron ore to the steel mills, but the carriers are in a poor position to do anything about it at the moment. Industry estimates the business lost during the second half of 1959 at approximately 2.5 million carloads of revenue traffic. This adds up to a whopping $600 million in gross revenues that the railroads were denied because of a strike in another industry. A lot of this money would have gone into new cars.

Railway Equipment Backlogs

Despite this situation, some new orders for freight cars have been placed out of dire necessity, raising backlogs on November first to 36,199 cars from 35,626 cars a month earlier. On close examination, however, it is apparent that the slight increase is due to the inability of the car makers to deliver cars because of steel shortages. Deliveries in October were 2,147, down from 2,481 the previous month. Moreover, even with steel now flowing from the mills, disruptions are still causing an involuntary backing up of orders. **Pullman** was recently forced to shut down another plant, three weeks *after* the Taft-Hartley injunction called a temporary end to the steel strike.

Nevertheless, the backlog picture varies quite sharply within the railway equipment industry. **Alco Products**, which specializes in locomotives, suffered a decline in backlogs to $37.6 million from $46.5 million between June and September, while **New York Airbrake** experienced a small decline of $2 million between December 1958 and September 1959. This decline, however, probably stems from a high rate of shipments, indicating again that excess capacity is resulting in more rapid depletion of backlogs.

Certainly New York Airbrake's earnings this year reflect a sharp rise in shipments. For the first nine months, earnings climbed to $2.33 per share from only 64¢ in the same period a year ago. However, the declining backlog provides a warning light for the future.

By contrast, **Westinghouse Air Brake**, which makes electronic railway equipment in addition to its traditional lines, has fared better. Backlogs in September were $90.9 million compared to only $72 million a year earlier. However, part of Westinghouse's backlog stems from roadbuilding equipment and defense orders, a situation not too typical in the railway equipment industry.

Defense Spending A Key for Some Industries

In other industries, such as aircraft, of course,

Order Backlog Trends For Representative Companies

Companies With Increased Backlogs

	Current Backlog —(Mil.)—	Date (1959)	Previous Backlog —(Mil.)—	Date	Net Sales 1958 —(Millions)—	1st 9 Months 1958 Net Sales —(Millions)—	1st 9 Months 1958 Earnings Per Share	1st 9 Months 1959 Net Sales —(Mil.)—	1st 9 Months 1959 Earn. Per Share	Indicated 1959 Div.	Recent Price
Allis-Chalmers Mfg.	$241.7	9/30	$201.0	9/30/58	$531.9	$393.7	$1.62	$387.8	$1.69	$1.25	35
American Mach. & Fndry.	164.8	9/30	90.8	9/30/58	230.8	160.2	1.00	199.3	1.67	1.30	48
American Mach. & Metals	17.9	9/30	16.7[1]	1/1/59	43.6	31.7	1.71	37.9	2.51	1.60	54
Avco Corp.	300.0	3/19	99.0	11/30/58	282.9	201.3	.80	223.2	.61	.40	16
Bath Iron Works	124.9	9/30	94.3	9/30/58	60.1	27.9[11]	2.16[11]	31.2[11]	2.77[11]	3.00	54
Bliss (E. W.) Co.	29.0	9/30	27.0	6/30/59	47.3	35.9	d .38	36.0	d .14	—	21
Bucyrus Erie	10.5	9/30	3.7	9/30/58	58.2	44.7	d .54	55.6	.72	—	23
Cincinnati Mill. Mach.	43.7	10/10	35.9	6/30/59	104.3	81.5	1.28	78.3	.64	1.60	40
Fairchild Camera & Instr.	17.9	9/30	15.2	9/30/58	31.6	22.7	.10	26.8	1.39	.50	136
General Dynamics	2,502.0	9/30	2,075.0	1/1/59	1,511.4	1,153.5	2.92	1,186.0	1.70	2.00	47
General Precision Instr.	202.0	9/30	168.0	12/31/58	168.3	122.7	.05	156.4	1.91	.25	54
International Tel. & Tel.	579.0	6/30	490.0	6/30/58	687.4	452.2	1.25	502.5	1.31	1.00	40
Koppers Company	144.6	9/30	122.9	9/30/58	258.9	197.1	1.41	175.3	1.49	1.60	47
Lear, Inc.	81.4	9/30	74.4	6/30/59	63.6	44.8	.43	61.3	.65	.40	20
McDonnell Aircraft	630.0	9/23	541.5	6/30/59	435.8[4]	109.0[5]	1.27[5]	99.1[5]	1.47[5]	1.00[9]	33
New York Shipbuilding	270.4	9/30	215.1	9/30/58	108.9	81.0	N.A.	84.7	N.A.	2.00	26
Otis Elevator	252.3	9/30	218.5	9/30/58	182.4	N.A.	2.56	N.A.	3.80	2.40	84
Raytheon Co.	350.0	9/30	300.0	9/30/58	375.1	264.0	2.10	345.7	2.22	10	53
Sperry Rand	848.2	9/30	762.8	9/30/58	989.6[2]	439.4[6]	.38[6]	553.7[6]	.66[6]	.80	26
Standard Railway Equip.	7.7	9/30	3.1	9/30/58	14.0	11.2	.14	19.1	.97	.50	15
Van Norman Industries	10.0	9/30	6.3	9/30/58	34.7	25.9	d 3.07	32.5	.45	—	10
Waukesha Motor Co.	13.0	9/1	8.0	9/1/58	36.1[3]	N.A.	.80[7]	N.A.	1.41[7]	2.50	44
Westinghouse Air Brake	90.9	9/30	71.8	9/30/58	206.2	158.8	1.50	145.8	1.82	1.20	31
Worthington Corp.	71.2	9/30	60.4	11/1/59	184.2	137.1	3.48	131.1	2.50	2.50	65

Companies With Decreased Backlogs

	Current Backlog —(Mil.)—	Date (1959)	Previous Backlog —(Mil.)—	Date	Net Sales 1958 —(Millions)—	1st 9 Months 1958 Net Sales —(Millions)—	1st 9 Months 1958 Earnings Per Share	1st 9 Months 1959 Net Sales —(Mil.)—	1st 9 Months 1959 Earn. Per Share	Indicated 1959 Div.	Recent Price
Alco Products	$37.6	9/30	$46.5	6/30/59	$138.6	$103.5	$1.70	$89.5	$1.45	$1.00	17
American Bosch Arma	132.0	9/27	196.0	3/29/59	115.8	79.7	1.26	90.1	1.57	1.20	31
Boeing Airplane	2,170.0	9/30	2,387.0	6/30/59	1,711.9	1,276.0	3.88	1,131.0	1.12	1.00[9]	33
Douglas Aircraft	1,334.4	9/30	1,584.0	9/30/58	1,209.9	888.7	4.29	658.2	d 1.57	—	40
Foster Wheeler	201.7	9/30	268.1	9/30/58	178.9	129.0	3.14	110.3	7.15	—	39
Lockheed Aircraft	1,059.8	9/27	1,296.6	9/28/58	962.6	689.8	2.11	939.1	.88	1.20	32
New York Air Brake	13.5	9/30	15.0	12/31/58	33.0	24.0	.64	31.8	2.33	1.60	31
North American Av.	662.0	9/30	758.2	6/30/59	909.4	909.4[8]	3.34[8]	1,047.5[8]	3.80[8]	1.60	35
Republic Aviation	500.0	9/30	526.4	9/30/58	218.5	133.5	2.66	152.9	1.79	1.00	24
United Aircraft	1,075.0	9/30	1,500.0	9/30/58	1,201.6	914.2	4.62	796.4	3.46	2.00	41

Company Backlogs Showing Little Change

	Current Backlog —(Mil.)—	Date (1959)	Previous Backlog —(Mil.)—	Date	Net Sales 1958 —(Millions)—	1st 9 Months 1958 Net Sales —(Millions)—	1st 9 Months 1958 Earnings Per Share	1st 9 Months 1959 Net Sales —(Mil.)—	1st 9 Months 1959 Earn. Per Share	Indicated 1959 Div.	Recent Price
Bullard Co.	6.2	9/30	6.4	6/30/59	13.4	10.9	d 1.65	11.0	d 2.61	—	17
Burroughs Corp.	212.0	9/30	220.0	1/1/59	292.5	208.4	.64	256.2	.80	1.00	35
Chance Vought Aircraft	313.0	9/30	300.0	6/30/59	333.1	240.9	6.18	191.6	3.61	2.00	29
Food Mach. & Chem.	84.9	9/30	82.5	9/30/58	323.1	241.0	1.80	266.4	2.39	1.20	51
Temco Aircraft	100.2	9/30	103.0	9/30/58	119.1	89.7	1.07	77.7	.51	.70	11

d—Deficit.
NA—Not available.

1—Approximate.
2—Year ended 3/31/59.
3—Year ended 7/31/59.
4—Year ended 6/30/59.
5—Quarter ended Sept. 30.
6—6 mos. ended Sept. 30.
7—Quarter ended Oct. 31.
8—Year ended Sept. 30.
9—Plus stock.
10—5% stock.
11—6 months ended June 30.

defense spending is the big factor in their backlog situation. Here too, the outlook for new orders is not as clear as it was a year ago. The Air Force recently ordered a slowdown on the B-70 bomber, a move which affects not only **North American Aviation,** the major contractor, but many subcontractors as well. Even before the slowdown, North American's backlog had declined to $662 million in September from $758 million in June, and over a billion dollars not long ago.

True, North American, along with others in the aircraft industry have been major missile contractors also, but the government is spreading its missile money among other industries as well. It is interesting to note that aircraft workers account for only 10% of the labor force in the missile field, indicating that aircraft companies have lost ground to smaller electronics companies as well as such giants as General Electric and Westinghouse.

A glance at the accompanying table shows a heavy concentration of aircraft companies among those that have suffered declines in their backlogs. **McDonnell Aircraft** is a notable exception with a rise to $630 million from $541 million between June and September. McDonnell's strength lies in its naval aircraft contracts, but investors should bear in mind that the entire aircraft procurement program is under constant review.

The aircraft industry's loss, however, is someone else's gain, since defense expenditures remain at approximately $41 billion. **Sperry-Rand,** after several years of troublesome operations, finally appears to be getting its share of business. The company's defense backlog alone climbed over $80 million between September 1958 and September 1959. As a major electronic company and one of the most important designers of missile control equipment, Sperry should now remain in the forefront.

Similarly, **General Dynamics,** after a period of declining backlogs, is now on the upgrade again. Unfilled orders have climbed a half a billion dollars so far this year, raising total backlogs to over $2.5 billion. Significantly, the rise has stemmed more from electronics and missiles than from aircraft.

International Telephone & Telegraph, whose backlog rose almost $100 million between June 1958 and June 1959, reflects the same increasing emphasis on electronics in the defense program. In addition, however, IT&T's successful development of facsimile and other communications systems bodes well for the future, outside of the defense program.

Areas of Improvement

Despite the inconclusive industry-wide backlog structure, there are a number of revealing individual company figures. **Otis Elevator,** for example, one of America's quality old line corporations continues to prove that age is not synonymous with senility. Despite the revocation of its bowling equipment production contract for Brunswick-Balke-Collender, Otis' backlog climbed to over $252 million in September from $218 million a year earlier.

The tremendous office building and apartment house boom, of course, has created an extraordinary demand for elevators, leading to burgeoning business for Otis. Building booms end in time, but a large portion of Otis' revenues stem from servicing contracts in connection with the elevators it installs. Hence, some stability of earnings and revenues can be expected even if the building boom eases off.

Allis-Chalmers, another old line company, has demonstrated that the turn for the better in evidence since the first quarter of 1959 was no accident. Backlog figures for all of its operations are not available, but unfilled orders of tractors alone rose $40 million to $242 million between September 1958 and September 1959.

Farm equipment sales are a major source of the company's revenues and should remain strong at least through this next spring. After that, declining farm income will pose some doubts. However, utility generating equipment, another of Allis-Chalmers major fields, appears on the upgrade, so that the recent earnings improvement should be maintained.

Bath Iron Works, a principal navy contractor, scored a sharp rise in backlogs to $125 million from $94 million in September 1958. Disruptions in the Navy's procurement program, and policy battles over capital ships have cut down backlogs for some shipyards, but Bath is the Navy's principal producer of Destroyers—especially the missile carrying variety—and these remain high on the priority lists of the Navy.

For the past several years Bath has had backlogs that assured at least two or three years operations at full capacity. This latest upturn in backlogs assures the continuance of that situation.

Koppers Co. also stands high on the better backlog list, probably reflecting new orders for open hearth furnaces from the steel industry. Expansion of steel mill capacity is not scheduled to rise too much this year or next, but open-hearth furnaces are the backbone of the industry, and many are now out of date. Since so many steel facilities were pushed to the breaking point during the months preceding the steel strike, it is small wonder that orders for new furnaces were placed to be ready to handle the high demand once the entire labor issue is settled.

Higher Backlogs Sparse

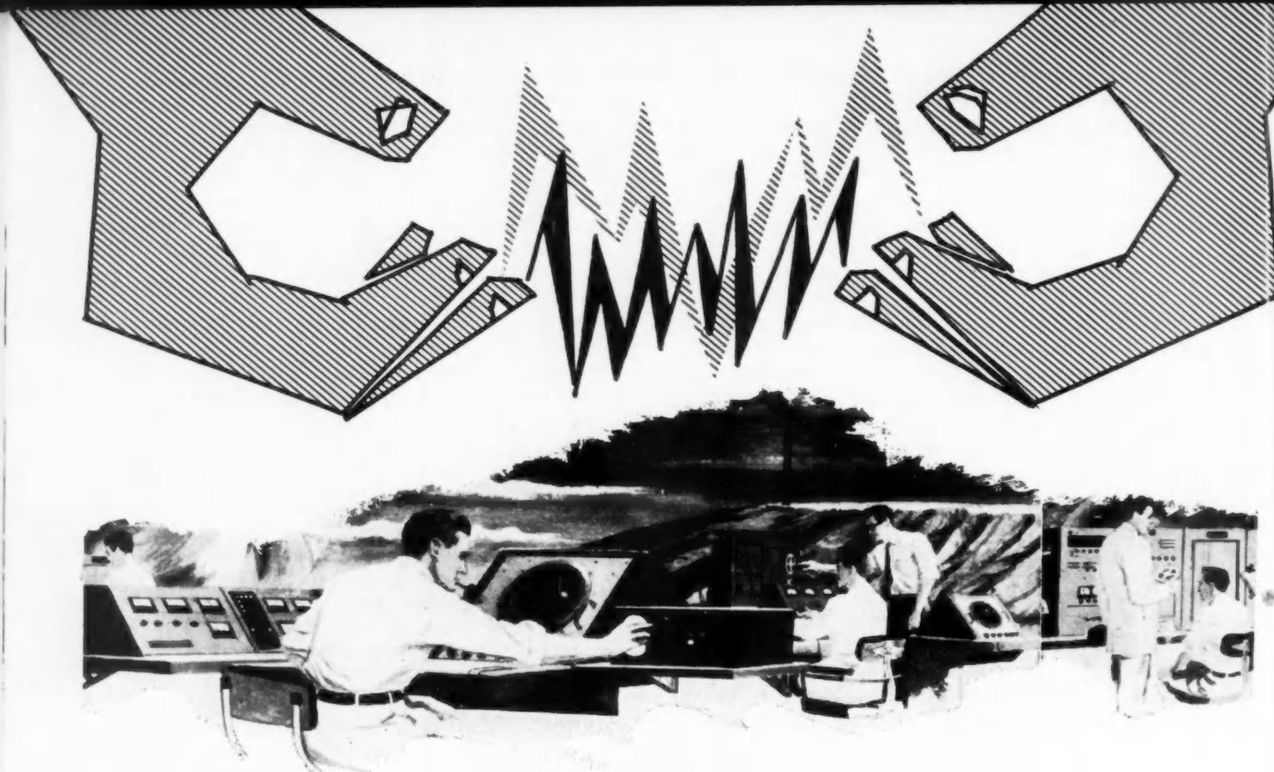
The accompanying table presents several other companies reporting higher backlogs, but the list is pathetically small compared with other years. The reasons of course are complex, but can be summed up this way:

► The steel strike cut down some ordering as procurement officers were unsure of how long the strike would last or what its long range effects would be.

► In addition, the companies that were able to continue production despite steel shortages, were able to utilize their large capacity to turn out orders faster than in former years, depleting backlogs more quickly. While this puts them in a better position to handle the spate of incoming orders expected early next year, it has robbed them of their most important source of sales and earnings stability.

► Like all statistics this year, of course, the backlog figures may prove misleading in light of later events. It may be that the steel strike was far more disruptive for a short period than anyone realized, and that later business activity will be swelled to exaggerated proportions in compensation. So far we can't tell.

One thing is clear how- *(Please turn to page 430)*



1960 EARNINGS-DIVIDENT OUTLOOK for THE UTILITIES

—*An analysis in depth*

By OWEN ELY

Editor's Note: This most thorough and expert appraisal deals with the various utilities in three distinct categories—their divergent conditions regionally—which companies are in a growth position—those likely to lag—changes in rate structures—legislation—financing—and importantly, *utility investments in a changing money market.*

DURING 1959 the electric utility stocks have followed an irregular price trend; through July they advanced as a segment of the bull market, and in August and September retreated along with industrials. During the second half of September they also rallied along with industrials, but in October they parted company with the latter group and have declined moderately while industrials advanced smartly. The principal reason for the poor recent showing is due to continued high money rates, which not only increase borrowing costs for utilities, but influence some investors to buy bonds in place of utility equities.

As of December 11th an index of 24 electric power common stocks still showed a gain of about 3% over a year ago; the average dividend was $2.64 compared to $2.52 a year earlier, so that despite the higher price average, the yield was 4.04% vs. 3.97% a year ago. High grade utility bonds yielded 4.64% vs. 4.18% in 1958, so that the bond-stock spread had increased from 0.21% to 0.60%. Of course a few utility stocks can be obtained to yield 5 to 5½%—mainly non-growth or small companies—and where dividends are paid both in cash and annual stock dividends, yields up to 6¾% are obtainable.

Utilities in Growth Areas

The Florida and Texas growth utilities have done somewhat better than the rank and file of utility stocks. In general these stocks are selling closer to their 1959 highs than the lows. Obviously since these stocks were bought for capital gains rather than income, the competition of high money rates and low priced bonds has much less effect than on the non-growth issues which are valued mainly for yield.

So far as operations are concerned the electric utilities have continued to give a good account of themselves this year. Output in the first half of 1959

showed very substantial gains over last year because of the industrial recession in the first half of 1958. However, in later months (until the steel strike ended) weekly KWH output ran only about 4-5% over last year. Currently, while the effects of the strike are still being felt, output is showing average gains of 7-10% over 1958.

In 1958 the electric utilities were able to show good average gains in share earnings despite the recession in the first half, due to unusually large credits for interest on construction, good hydro conditions, etc. This year the rate of gain in share earnings has averaged about 7% as compared with the 6% average during the previous five years on a compounded basis. The latest bulletin of the FPC reporting earnings for all private electric utility companies showed a gain in revenues of 8% and net income of over 9% for the 12 months ended Aug. 31. (However, results for later months would probably be somewhat lower due to the strike.) Electric utility plant had grown about 8% during the 12 months.

The "Flow-Through" Method in Utility Bookkeeping

In order to appraise utility earnings it's necessary to know something about the special bookkeeping employed. Last year, as noted above, earnings were aided by large credits for interest on construction. This year, while these credits are lower, the overall earnings picture was aided by increased savings in Federal income taxes due to liberalized depreciation.

Not only do these savings increase steadily year by year, but more companies have been adopting the practice of using "flow-through" (which means that the tax savings are not offset by a special bookeeping item of "deferred taxes").

The New York State Commission earlier this year indicated its preference for flow-through, since this may reduce the amount of increased rates necessary to show a fair return. As a result several additional New York utilities adopted flow-through. In New Jersey, Atlantic City Electric recently adopted flow-through and it seems possible that some other companies may follow suit. In California, California Electric Power adopted the new method and if the State Commission indicates its preference (following a long investigation which is about completed) some other utilities might also adopt flow-through.

► *Another bookkeeping development which will also help the earnings of some electric utility companies over the next three or four years is the fact that the fifteen-year amortization of plant acquisition adjustments(count 100.5)is beginning to run out.* Thus **Minnesota Power & Light** earnings in 1960 should gain about 37¢ and **New England Gas & Electric** may pick up about 10¢ as a result of ending certain amortization charges.

Earnings Picture Good

► Dividend increases continue to be announced with fair regularity; the increase in the average rate this year has been about 5%. *Rochester Gas & Electric recently joined the group of companies (Commonwealth Edison and several small utilities) which have adopted a policy of paying out nearly all earnings in both cash and stock.* Rochester Gas & Electric (recently around 48) has a combined yield of 6.8% —3.8% from the $1.80 cash dividend and 3% from the annual stock dividend which is to be declared in the near future.

Regulation

► There have been few important developments in the regulatory field. According to a tabulation prepared by Arthur Andersen & Co. the average rate of return was 5.85% in 14 rate decisions during the earlier months of 1959. While this seems somewhat disappointing, it must be remembered that the major advance in interest rates came later in the year and was probably not reflected in these decisions. The gas companies were allowed an average of 6.01% and telephone companies 6.10%.

► The outlook for 1960 appears quite favorable. With the slowing down of the construction program referred to above, *there will be less need for equity financing with its resulting dilution of earnings. Moreover, with increased tax savings more internal cash is generated.* Manufacturing activity (especially automotive and steel) is expected to increase sharply, assuming no new outbreak of strikes, and demand for industrial electricity should improve accordingly. The increased sales of appliances and the growing trend toward house heating are also favorable factors.

Surplus in Power Capacity in the Making?

► According to a recent survey by the Edison Electric Institute, the electric power industry expanded its generating facilities at the rate of about 10% per annum in 1958-9. *However, at the end of this year the margin of capacity will have risen to 28%, which seems higher than needed except under wartime conditions. It looks as though the industry will slow down a little on future expansion plans,* adding new capacity at the rate of only 6-7% during 1960-62, although the peak load is expected to gain 7% or 8% annually—thus reserve capacity will probably drop to about 25% by 1962. Estimated additions to capacity during the five years 1958-62 will approximate 48 million kw and orders have already been placed for about 44 million. Of this expansion 83% will be steam and 17% hydro; and a breakdown by ownership would be 73% for private utilities. 12% for Federal Power projects and 15% for state and local public power.

► There have been a spate of new scientific developments in connection with methods of producing power (see *Magazine of Wall Street* of Nov. 21, 1959). Over the longer term, it appears likely that one or more of these methods will promote a further gain in generating efficiency (now limited to about 40%). Some of the new methods aim to bypass the boiler and generator and turn heat directly into electricity.

What Progress for Atomic Energy?

► In the atomic energy field there have been few important developments but research continues and competitive costs should be realized in five to ten years. In the fission field the goal seems still further away—perhaps twenty-five years—because of the great difficulties in dealing with plasma at a temperature of millions of degrees.

Comparative Statistics on Important Electric Utilities

	Earnings Per Share						1959 Dividend Per Share	Recent Price	Div. Yield	Price Earnings Ratio*	Price Range 1958-59
	1954	1955	1956	1957	1958	Est. 1959					
American Electric Power	$1.68	$1.94	$2.03	$2.36	$2.30	$2.35	$1.80	46	3.9%	19.5	55⅞-38⅜
Baltimore Gas & Electric	.94	1.01	1.16	1.17	1.20	1.45	1.00	26	3.8	17.9	27¼-17½
Central & South West Corp.	1.00[1]	1.02[1]	1.16[1]	1.20[1]	1.27[1]	1.37[1]	.90[1]	31[1]	4.4	22.6	34⅛-20½[1]
Cincinnati Gas & Electric	1.72	1.90	1.99	2.01	1.85	1.85	1.50	31	4.8	16.7	37 -28¾
Cleveland Electric Illum.	1.93	2.49	2.60	2.64	2.60	3.00	1.80	48	3.7	16.0	55½-37⅜
Commonwealth Edison	2.70	2.62	2.72	2.85	3.28	3.65	2.00[2]	57	3.4	15.6	64 -41⅝
Consolidated Edison	2.98	3.12	3.20	3.44	3.74	3.90	2.80	60	4.6	15.3	68¼-44⅛
Consumers Power Co.	3.10	3.11	3.33	3.30	3.15	3.70	2.60	58	4.4	15.6	61¾-48⅛
Detroit Edison	2.05	2.43	2.36	2.62	2.17	2.35	2.00	42	4.7	17.9	47¾-37⅞
Duquesne Light Co.	1.13	1.17	1.22	1.36	1.40	1.40	1.10	23	4.7	16.4	26⅞-17⅛
Florida Power & Light	.87	1.03	1.30	1.49	1.76	2.00	.88	50	1.7	25.0	54⅞-27
General Public Utilities	1.21	1.41	1.53	1.51	1.54	1.65	1.12	23	4.8	13.9	27⅞-18¾
Illinois Power Co.	1.41	1.73	2.00	1.95	2.10	2.60	1.50	45	3.3	17.3	43¾-29¼
Long Island Lighting	1.21	1.43	1.68	1.72	1.82	2.00	1.30	32	4.0	16.0	36⅜-22⅜
New England Electric System	1.16	1.24	1.23	1.19	1.26	1.33	1.08	20	5.4	15.3	21¼-14½
Niagara Mohawk Power	2.11	2.22	2.13	1.91	2.12	2.05	1.80	34	5.2	18.8	41⅜-29¼
Northern States Power	1.07	1.16	1.21	1.23	1.30	1.40	1.10	24	4.5	17.1	25¾-16⅝
Ohio Edison	3.02	3.55	3.79	3.62	3.60	4.00	2.64	59	4.4	14.7	67¾-50⅞
Pacific Gas & Electric	2.88	3.32	3.37	3.41	3.74	3.90	2.60	62	4.1	15.8	66¾-47¾
Philadelphia Electric	2.25	2.39	2.59	2.60	2.76	2.90	2.24	51	4.3	17.5	57 -37⅛
Public Service Elec. & Gas	1.96	2.26	2.10	2.22	2.14	2.50	1.80	36	5.0	14.4	43⅞-29¾
Rochester Gas & Electric	2.13	1.90	2.24	2.26	2.58	3.35	1.80	48	3.8	14.3	49½-28¼
Southern California Edison	3.06	3.32	3.48	3.12	3.78	3.80	2.60	60	4.3	15.7	63¾-49⅝
Southern Company	1.29	1.35	1.54	1.65	1.81	1.95	1.30	39	3.4	20.0	41½-24¾
Texas Utilities	1.93	2.06	2.35	2.56	2.73	2.90	1.76	68	2.5	23.4	74¾-44½
Union Electric Co.	1.65	1.70	1.70	1.94	1.77	1.80	1.64	32	5.1	17.7	35¾-27¼
Virginia Electric & Power	1.10	1.27	1.39	1.53	1.66	1.65	1.10	38	2.8	23.0	40⅞-26⅛
West Penn Electric	1.88	2.06	2.15	2.19	2.26	2.35	1.60	36	4.4	15.3	38¾-25¾
Wisconsin Electric Power	2.31	2.36	2.44	2.40	2.12	2.75	1.80	38	4.7	13.8	40½-31⅞

*—Based on estimated 1959 earnings.

1—Adjusted for 2 for 1 stock split subject to approval 12/22/1959.
2—Plus stock.

► Meanwhile the utilities are seeking more immediate economies through new generating ideas; thus it is reported that **Union Electric** will spend $50 million to build a "pump storage" plant in the St. Louis area. Electric power would be used to pump water into an elevated pool at night (when the demand for electricity is at low ebb) and then allow it to flow back by gravity to operate the turbines the next day.

Natural Gas Utilities

Stocks of the pipeline and integrated natural gas systems have behaved rather poorly in the past year (after a phenomenal advance in earlier years) largely because of continued unfavorable regulatory developments. The Federal Power Commission has been snowed under with important cases, relating both to regulation of independent gas producers and applications, for rate increases from pipelines resulting from the increasing field cost of gas (plus higher financing costs). An important decision recently handed down in the *El Paso* case proved quite disappointing to investors because the Commission considered tax savings resulting from charges for depletion and from the cost of intangible drilling as a return on the portion of the investment "below the well-mouth"—a novel theory, *the use of which reduces the overall rate of return on all property to below 6% when figured on the usual basis.*

Despite the failure of Congress to pass needed legislation to clear up the regulatory muddle, and the dilatory procedure of the Federal Power Commission in deciding long-pending cases, the gas industry has pushed ahead with ambitious construction plans. It is estimated that the industry is spending some $1,859 million vs. $1,618 million last year, a gain of 15%. A small gain is also anticipated in 1960, followed by more substantial increases in 1961-62; the latter year is estimated at -2,166 million, or 34% over 1958. On this basis, the average yearly increase in expenditures would approximate 7% on a compounded basis.

Pipeline Expansion

The new $161 million pipeline system to carry gas from Louisiana to Florida was placed in operation June 1, with an initial capacity of 282 million cf daily, having been built by the newly organized **Houston Corp.** and its subsidiaries. **Tennessee Gas**

Comparative Statistics on Important Gas Companies

	Earnings Per Share						1959 Dividend Per Share	Recent Price	Div. Yield	Price Earnings Ratio *	Price Range 1958-59
	1954	1955	1956	1957	1958	Est. 1959					
American Natural Gas	$3.52	$3.03	$3.95	$3.55	$4.03	$4.45	$2.60[1]	57	4.5%	12.8	73¼-44⅛
Columbia Gas System	1.09	1.08	1.41	1.28	1.44	1.35	1.00	20	5.0	14.8	24⅝-16
Consolidated Natural Gas	2.67	2.86	3.33	3.39	3.14	3.10	2.10	47	4.4	15.1	57¾-40¾
El Paso Natural Gas	.95	1.53	2.11	1.65	1.61	1.80	1.30	29	4.4	16.1	39¼-27
Lone Star Gas	1.82	2.14	2.19	2.32	2.24	2.40	1.80	37	4.8	15.4	47¼-31
Northern Natural Gas	1.38	1.60	1.78	1.87	1.62	1.70	1.40	29	4.8	17.0	35¾-23¾
Pacific Lighting	2.38	2.71	2.84	2.42	2.73	2.80	2.40	48	5.0	17.1	56¼-40⅛
Panhandle Eastern Pipe Line	2.13	2.50	2.75	2.74	2.74	3.45	1.80	47	3.7	13.6	62¼-37
Peoples Gas Light & Coke	2.71	2.85	2.90	2.93	3.08	4.00	2.30	61	3.7	15.2	65⅞-37
Southern Natural Gas	1.89	2.37	2.41	2.35	2.40	2.40	2.00	36	5.5	15.0	46¾-33
Tennessee Gas Transmission	.94	1.44	1.57	1.70	1.84	1.85	1.40	32	4.3	17.2	38⅝-25¼
Texas Gas Transmission	1.63	1.74	2.17	1.83	2.06	2.25	1.40	31	4.5	13.7	35¼-16¼
United Gas Corp.	2.07	2.03	2.28	2.51	2.41	2.40	1.50	34	4.4	14.1	42⅞-27¼
Washington Gas Light Co.	3.05	2.97	3.04	2.77	3.37	3.50	2.24	46	4.8	13.1	54½-34⅛

Comparative Statistics on Three Communications Companies

American Telephone & Telegraph	3.81	4.37	4.39	4.33	4.67	5.15	3.30	76	4.3	14.7	89 -56
General Telephone & Electronics	1.84	2.91	3.14	3.12	2.94	3.15	2.20	84	2.6	26.6	84 -40⅝
Western Union Telegraph	1.28	2.10	2.21	2.03	1.89	2.60	1.40	52	2.3	20.0	53¾-15

*—Based on estimated 1959 earnings. [1]—Plus stock.

Transmission has completed the southern leg of its **Midwestern Gas Transmission pipeline,** and initial deliveries of gas from Tennessee to the Chicago-Gary area commenced October 7 at the rate of 160,000 mcf daily (which will rise to 250,000 mcf later this winter and probably to 353,000 by 1962). This gas will be used by utilities and steel companies in the area.

Transwestern Pipeline Company, with headquarters in Houston, was organized recently to construct a $195 million pipeline system from Texas and Oklahoma to a point near the Arizona-California border where it will connect with a pipeline of Pacific Lighting, which needs the gas.

Transcontinental Gas Pipeline has a substantial expansion program under way amounting to $107 million in 1960, including new facilities to help transport gas to New York for use by Consolidated Edison as boiler fuel. (Con. Ed. will buy the gas, Transco merely carry it.) *(The FPC had denied the company the right to do this, but was recently overruled by the U.S. Court of Appeals.)*

Canadian Gas

(A full story, "On Piping Canadian Natural Gas to United States Markets," appeared in our December 5, 1959 issue)

Plans have been under way for several years to bring gas from western Canada to supply the Pacific Coast and Middle West needs. Westcoast Transmission is transporting 200 million cf daily from Peace River (Alberta) fields to the U.S. border, where it is taken by the Pacific Northwest Pipeline (subsidiary of El Paso Natural Gas); it wants an additional 165 million cf a day. Now that Trans-Canada Pipeline is operating, Tennessee Gas is trying to obtain 204 million cf per day from Trans-Canada for use in Minnesota and Wisconsin. A small spur would be built to Emerson on the U.S. border, where a new line would be built by Midwestern Transmission. **Pacific Gas & Electric** also wants 494 million cf daily from Alberta fields, and the entire pipeline system both in Canada and the U.S. may cost $355 million. All these projects had been delayed somewhat because Canada's new National Energy Board, one of whose duties is to regulate exports of gas to the United States, was only created recently. However, the Board will open hearings January 5 on five gas export applications.

Behind-the-Scenes Struggle

Turning to the regulatory problem: for some years there has been a behind-the-scenes struggle between gas producers and gas distributors over the steadily rising price of gas in the fields, partly as a result of escalator clauses in contracts and partly due to the big backlog of demand for gas to extend househeating facilities in the middle west and some other areas. The FPC, caught in the middle, has hesitated to regulate the field price of gas too rigidly because this might restrict the amount of new interstate gas for northern consumers. (Already a considerable amount of gas has been diverted to industrial use on an intrastate basis in Texas and other southern states). Moreover, the cost of exploring for new supplies of gas, particularly in the Tidelands off the shores of Louisiana and Texas, has been rising steadily.

● On December 14, the Supreme Court handed down a decision which *(Please turn to page 432)*

CAN MEAT PACKERS MAINTAIN 1959 GAINS?

By J. C. CLIFFORD

►Last year the better times we forecast for the meat packing industry materialized. We now re-examine the results of new type diversification and distribution — outlook for cattle marketing — prices — labor costs . . showing the varying position of individual companies.

ONE of the pioneers in adopting streamlined production methods, the meat packing industry has recently been an outstanding laggard in modernizing operations to take advantage of new labor saving techniques. Major suppliers have depended chiefly on expansion in volume to compensate for rising processing and distributing costs. Although profit margins are notoriously low among packers, the 1958 record of less than one-half of 1 per cent on sales was less satisfactory than usual. When results for the fiscal year recently closed are compiled, it is believed the showing for 1959 will prove moderately higher.

With benefits of modernization programs becoming more effective in the coming year, profit margins are expected to move upward to levels more in line with profitable periods of the past when net income of slightly less than 1 per cent on sales was considered reasonably satisfactory. To achieve improved margins, industry leaders have either abandoned high cost plants or have spent large sums in installation of more efficiency equipment. New plants have been located nearer principal livestock growing areas, affording transportation economies. In addition, greater stress has been placed on production of so-called convenience items that may be effectively marketed in chain groceries. Attractively packaged foods command wider margins for processors.

Agricultural conditions hold promise of more satisfactory manufacturing operations in the coming year. To attain the best results, packers require a steady flow of livestock to slaughtering plants. Adequate marketing plans depend on many factors, including weather. As a case in point, supplies of cattle available for processing have been disappointing for more than a year, but considerable improve-

Statistical Data on Leading Meat Packers

	Net Sales 1958 (Millions)	Net Sales ..1959 (Millions)	Earnings Per Share 1958	Earnings Per Share 1959	Net Profit Margin 1958	Net Profit Margin 1959	Dividend Per Share 1958	Dividend Per Share 1959	Price Range 1958-59	Recent Price	Div. Yield
Armour & Co.	$1,850.4[1]	$ N.A.	$1.08	$2.73[3]	.3%	N.A.%	$ —	$1.20[5]	37⅜-11	36	3.3%
Cudahy Packing	369.0[1]	354.1[1]	1.46	1.43	.7	.7	—	—	17¼- 7¼	13	—
Hormel, G. A. & Co.	360.9[1]	401.7[1]	5.18	10.22	.8	1.4	2.50	2.50[2]	90½-50⅛	75	3.3
Hygrade Food Products	411.4[1]	414.2	2.39	4.50	.3	.4[10]	1.00	1.00[4]	35⅛-15⅛	33	3.0
International Packers	53.6[6]	30.5[7]	.79[8]	.77[9]	4.1[8]	2.6[9]	.50	.55	24⅜- 7	19	2.8
Morrell, John & Co.	401.6[1]	435.0[3]	2.80	7.10[3]	.5	.8[10]	.30	.80[4]	53 -11½	52	1.5
Swift & Co.	2,645.3[1]	2,475.5[1]	1.70	3.20	.3	.8	2.00	1.60	47⅞-29¾	45	3.5
Wilson & Co.	683.6[1]	324.3[10]	3.10	3.50[3]	1.1	1.2[10]	1.00	1.40	45¾-16	42	3.3

N.A.—Not available.

1—Fiscal year ended Oct. 31.
2—Vote 12/22/59 on 2 for 1 split; $.35 per sh. quar. div. on new stock.
3—Estimated.
4—Plus stock.
5—Paid 10% stock 1/8/59; declared $.30 cash and 1/40 sh. of Int. Packers Ltd., 12/3/59.
6—Parent Co. only; consol. sales were $377 million.
7—Parent Co. only for 1st 6 mos.; consol. sales were $188.0 million.
8—Parent Co. only.
9—Parent Co. for 1st 6 mos. only; reported $1.80 on consol. basis.
10—6 months to April 30.

ment was experienced in the latter part of 1959 and the outlook for 1960 is considered reassuring on the basis of farm surveys conducted by the Department of Agriculture. Margins on cattle proved disappointing because of the uneven flow of beef to market and consequent higher processing costs.

Favorable and Unfavorable Factors

A combination of a more abundant supply of livestock, rising personal income—bolstered by steadier employment—and lower expenditures on modernization programs should find reflection in wider margins for the "big five" packers as well as principal smaller companies. Freedom from troublesome labor contract negotiations is counted on as another favorable factor in the current fiscal year. Stronger resistance on part of managements to union demands in recent months accounted for protracted negotiations in many instances. Wilson & Company was handicapped to a greater extent than other principal competitors, especially in a plant at Albert Lea, Minn., where martial law was invoked to curb violence after management had attempted to employ non-union labor when organized employees rejected the company's final offer.

Contracts calling for increased wages and fringe benefits were approved in plants of other processors after lengthy negotiations. Insistence on part of management in more satisfactory work rules necessitated by rearrangement of operations after installation of new equipment helped explain difficulties in solving contract problems. Economies afforded by more efficient methods are expected to counteract increases in hourly rates granted employees. Benefits hold promise of contributing greater earning power for meat packers over the longer term by minimizing adverse effects of variations in the flow of livestock to market. Ups and downs of the supply factor, especially in cattle and hogs, continue to have a dominant effect on margins.

Consumer preferences also have an important influence in determining demand for meats at the retail level and, therefore, go far toward sustaining or depressing margins. In the gradual transition of meat distribution in large metropolitan centers to pre-packaged cuts arranged for selection in supermarkets from old-fashioned butcher shops of the past, American consumption of meat has declined. Industry figures suggest that expenditures by the average family for meat have held about steady at around $75 to $80 per capita annually. Evidently homemakers have increased spending on competitive foods despite the fact that meat prices have remained relatively low.

Important Shifts in Plant Locations

Perhaps one of the most significant policy changes in the last year or two that portends more favorable results for stockholders has been the de-emphasizing of volume. In the shift from large processing plants in Chicago, Kansas City, etc., to smaller rural communities, packers have evidenced a willingness to sacrifice volume in favor of greater efficiency in operations. Instead of bidding up for livestock to keep large plants operating, packers have refused to pay excessive prices for the sake of maintaining uninterrupted processing. As a result of the elimination of outmoded plants, and concentration in modernized facilities, excess capacity which posed problems for the industry a few years ago has virtually disappeared. *Both Armour and Swift have suspended packing activities in Chicago, where operating costs became prohibitive.*

In the adjustment to more compact facilities, *Armour announced several months ago an intention to curtail output in about 25 per cent of its 32 localities. Slackening of operations was concentrated in plants which had accounted for unprofitable or marginal volume.* Contraction in capacity, if accompanied by a greater supply of raw material and better margins, should contribute to a more satisfactory return on invested capital. *Cudahy*, for example, is expected to enjoy a more successful year in 1960 in reflecting economies anticipated from modernization of its big Omaha plant around the middle of 1960.

Trend Toward New Diversification

Another important factor to be taken into account in appraising prospects for packers is the relatively recent trend toward diversification to reduce dependence on meat and poultry.

In the case of *Armour*, for example, *considerable emphasis has been placed on pharmaceutical research and extension into by-* *(Please turn to page 434)*

FOR PROFIT AND INCOME

Cross-Currents

Stock groups showing above-average strength in recent trading sessions up to this writing include aluminum, automobiles, chemicals, coppers, meat packing, food stores, metal fabricating, mail order, rail equipments, steel, textiles and tires. Softer-than-average groups are principally aircraft, air lines, drugs, finance companies, gold mining and tobaccos.

Auto Race

Among the Big Three, Ford is the only one with its stock in new all-time high ground. Despite the steel strike, it will report 1959 net close to or a little above 1955's record $8.17 a share. It could well earn over $11.00 a share for 1960. Currently above 90, the stock still does not appear excessively priced. Like "old man river," General Motors will roll ponderously along, probably without a big-enough gain in earnings to excite the market. Chrysler is the big question mark. Margins are fairly narrow, the company's 1959 share of the market unimpressive. When conditions are just right, per-share earnings can be high. Some think Chrysler will have a banner year with its 1960 models. We are not so sure. Around 71, speculation could take the stock higher. Probably it would be sounder to take some profits on strength than to add to holdings here.

Drugs

Drug stocks have eased following sensationalized revelation of high profit margins on some single newer products via investigation by a Congressional committee dominated by New-Deal Senator Kefauver, perpetual candidate for Presidential nomination. Over-all margins of leading drug companies are excellent, but not too fancy. Since we are not likely to have regulation of drug prices and profits by anything excepting competition, the damage to the stocks no doubt is temporary, a rally likely. But after a long period of above-average market rise, the stocks were at a general level of dear valuation anyway when this news hit. We do not see any ned for hurry on the buying side.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Tennessee Corp.	Quar. Sept. 30	$ .51	$ .25
Raybestos-Manhattan, Inc.	9 mos. Sept. 30	4.44	1.66
Caterpillar Tractor Co.	10 mos. Oct. 31	1.59	1.14
Coca-Cola Co.	Quar. Sept. 30	2.98	2.60
Truax-Traer Coal	Quar. Oct. 31	.50	.40
American Water Works	9 mos. Sept. 30	1.02	.71
Hershey Chocolate	9 mos. Sept. 30	4.76	3.74
Miami Copper Co.	Quar. Sept. 30	1.41	.43
Shattuck (Frank G.) Co.	9 mos. Sept. 30	.42	.31
Western Air Lines	9 mos. Sept. 30	3.73	.71

Stable Growth Stocks

In classification of stocks, stability and growth would seem to mean quite different things. Yet some companies in relatively stable lines of business have excellent growth records. There is less than average risk in their stocks and, if they are not bought at too high levels, possibilities for long-term gain can be broad. One example is Heller (Walter E.) Company. It provides financing services to business concerns, including financing of accounts and installment receivables, factoring, rediscounting of automobile and other consumer finance paper, inventory and equipment loans, etc. For some years Heller's growth rate has materially exceeded those of better known concerns in consumer installment financing. Gross income and net have more than doubled in the last eight years. Net for 1959 is put close to $2.80 a share, a new peak, up from 1958's improved $2.39. At a $1.40 rate, dividends have risen for seven consecutive years. At 39, the stock has risen about 155% from its 1957 low, against 61% for the Dow industrial average. At about 14 times earnings, it remains more reasonably priced for long-pull buying than the average industrial.

Brown Shoe

There can be growth even in the unglamorous shoe manufacturing business. Sales of Brown Shoe about doubled over the last seven years, profits more than doubled. Earnings reached a record $6.34 a share for the fiscal year ended October 31, against the prior year's $4.67. More than doubled since 1950, the dividend was raised recently from $2.20 to $2.80. The stock's rise from 1957 low has exceeded that of the industrial average by about 54%.Brown holds a strong position in women's and children's shoes, benefitting from style changes in the former and rapid wear-out of the latter. In an anti-trust case, the company will contest a lower court decision ordering divestment of the Kinney retail shoe store chain, acquired in 1956. The uncertain outcome could not be too serious. Brown has two smaller retail chains, and there is no law against expanding them. Also, the greater part of sales is through independent stores. At 73, the stock is not over-priced at 11.5 times earnings, yielding 3.8%, but would be a better buy on dips. Reactions come in any stock.

Heinz (H. J.) Co.

One of the oldest and largest food processors, Heinz is identified with the familiar trademark "57 Varieties." Differing from U. S. competitors, around half of sales and over three-quarters of profits derive from foreign subsidiaries. Prospects for the important British and Western European operations were never so promising. Up more than 100% since 1953, profit could approach $7.00 a share for the fiscal year ending April 30, against last year's $6.41. Dominated by the Heinz family, policy on dividends, now at $2.20, is highly conservative; but there have been four increases in the postwar period, and another seems due before long. At 90, the stock is priced at only some 13 times earnings, with current yield little over 2.4%. If you want a "hot" stock, this is not it. But it qualifies for conservative long-pull investment in periods of reaction. Its rise from 1957 low has been about 70% more than that of the industrial average.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Ingersoll-Rand Co.	9 mos. Sept. 30	$2.92	$3.33
Pub. Serv of Indiana	12 mos. Oct. 31	2.77	2.86
American Stores Co.	27 weeks Oct. 3	2.51	3.05
Twentieth Century-Fox Film	13 weeks Sept. 26	.49	.58
Iowa Power & Light	Quar. Sept. 30	.25	.31
Minneapolis & St. L. Rwy.	10 mos. Oct. 31	1.52	2.11
United Electric Coal	Quar. Oct. 31	.57	.75
Aluminium, Ltd.	Quar. Sept. 30	.15	.25
Brown & Bigelow	Quar. Oct. 31	.35	.52
Pan American World Airways	Quar. Sept. 30	.86	1.02

Beatrice Foods

Profit of this company, prominent in dairy products and other foods, should not be much under a peak $4.00 a share for the fiscal year ending February 29, against the prior year's $3.65. Long-term growth has been at a modest rate, improving in recent years via more aggressive expansion. A 25% stock dividend was recently voted. Cash dividends will go to a $1.60 rate, equal to $2.00 on the present shares, against $1.80 heretofore. At 54, the stock is priced around 13.6 times earnings with indicated yield basis 3.7%. From 1957 low, the issue has risen about 40% more than the industrial average. It has long-term investment merit, but surely is no bargain. However, our purpose in citing it — along with Heinz, Brown, Shoe and Heller — is merely to illustrate the good results opportunely attainable in selected conservative stocks — stocks commonly thought of as "suitable for old ladies." A time will come when buyers of some of today's "hot" stocks will wish they owned more conservative equities.

Flying High

Good possibilities in the private plane business were cited here over a year ago. With only 2% of its 1957 fiscal-year business military, Piper is the only important maker predominantly of private planes. Net may have approached $3.00 a share for the year ended last September 30, against the prior year's reduced $2.36 and a previous peak $2.94 in the 1956-1957 fiscal year. The dividend is $1.00, plus a recent 5% stock extra. At recent high of 53¾, the stock had considerably more than doubled from 1959 low and almost quadrupled from 1958 low. It is not that good and should make some descent. The same is so for Beech Aircraft and Cessna, which have had similarly spectacular advances in excess of earnings gains. Cessna is close to half in military business, Beech nearer two-thirds.

Another Look

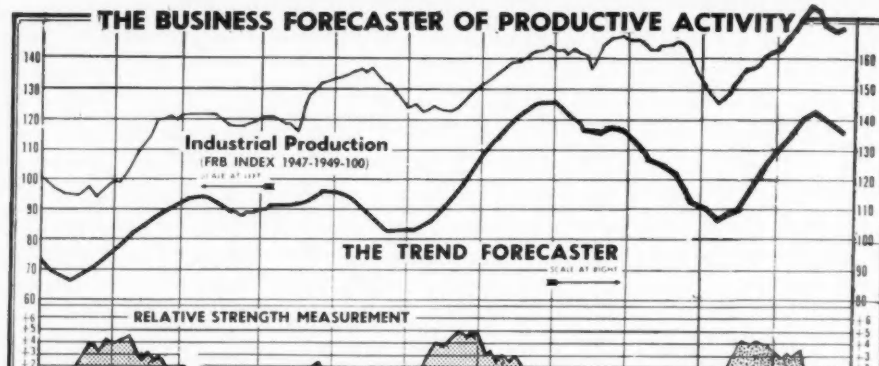
Gimbel was recommended here first in the forepart of 1959 at 38. After consolidating for some time around the 50 level, it moved into

(Please turn to page 436)

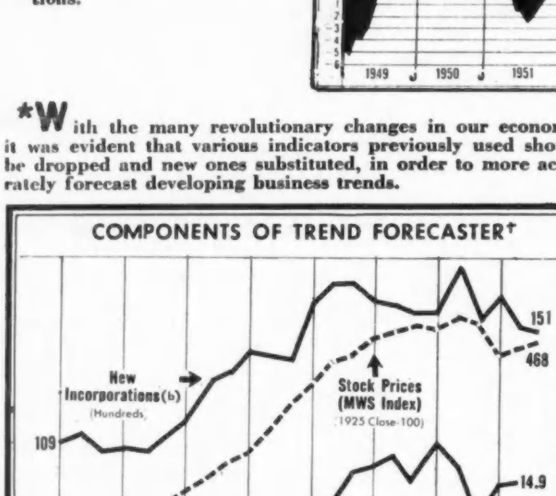
the Business

Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As the year draws to a close, the leading indicators entering into the Relative Strength Measurement and the Trend Forecaster remain in a state of confusion, owing to the violently disruptive effects of the steel strike. Operations throughout the durables industries are still abnormal, with abnormal influences on hours worked and new orders. Steel shortages doubtless contributed to the sharply reduced levels of residential building in October and November, and nonresidential activity and awards have been hit even harder. Those indicators further removed from the steel situation—such as new incorporations, commodity prices, business failures—have behaved erratically in recent months.

As steel shortages are gradually washed away by the flood of production now emanating from steel plants, activity in many industries reflected in the Trend Forecaster is clearly destined to rise, and sharply. The Relative Strength Measurement is thus assured of a pronounced improvement in early 1960 but should be watched closely for signs that the catch-up boom is losing momentum.

Analyst

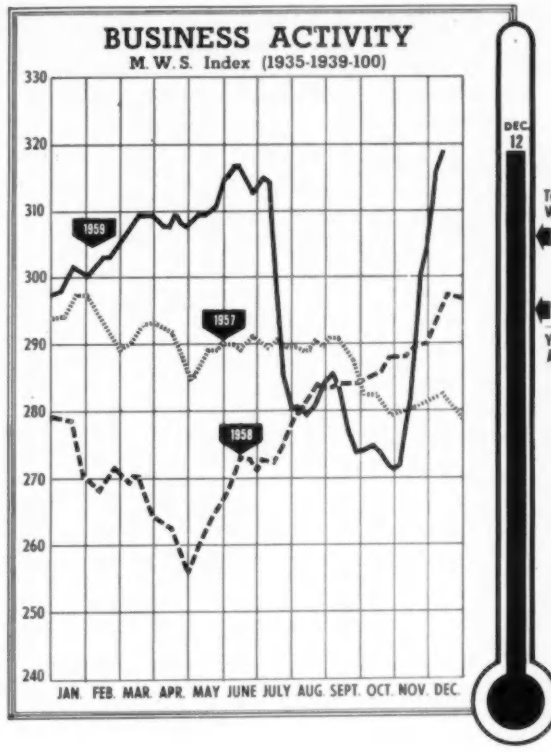
CONCLUSIONS IN BRIEF

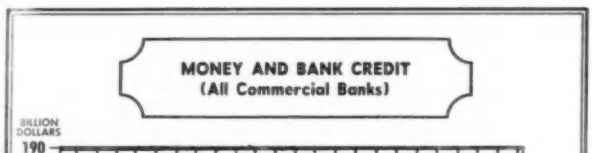
PRODUCTION—now moving into an accelerating rise, as output rates climb in steel and then in steel-consuming industries. General industrial output to rise 10% above the October trough by March. Further moderate advance thereafter.

TRADE—likewise in for rapid advance, partly reflecting recovery in automobile sales, but also further improvement in soft goods and household goods. First quarter of 1960 to set new seasonally adjusted peak for retail volume.

MONEY & CREDIT—tight now, and to remain so at least through the first half of 1960. Use of mortgage funds now declining, but short-term demand for funds for inventories rising rapidly; and long-term funds for plant and equipment programs will be required in quantity by mid-1960. Interest rates to stay where they are for at least six months.

COMMODITIES—trends here are still mixed. Farm commodities and a few raw materials are still weakening, other industrial commodities strengthening. Best for the next six months; a moderate but clear uptrend in industrial prices, stability in farm prices.





THE 1960 OUTLOOK: As of late December, the annual parade of twelve-month forecasts has about passed the reviewing stand, and it is possible to summarize their combined implications for 1960.

By all indications, the year is widely expected to set new records in virtually every dimension. In dollar terms, a new record national output in the range of about $510 billion seems to be the consensus. This would mark an increase of about $30 billion over 1959, with the strengths and weaknesses distributed about as follows:

Inventory demand of mammoth proportions heads the list of strengths. At the time of the steel strike, inventories were still generally low throughout retailing, wholesaling and manufacturing industries. They were just beginning to catch up, and were still far from normal, given the current and prospective levels of sales. The liquidation of inventories throughout the durables sector in October—and the apparent but yet undocumented further liquidation in November—thus piled a huge and abnormal catch-up requirement on an existing inventory deficit of perhaps $5 billion. Accumulation of considerably over $5 billion—and perhaps close to $10 billion—thus seems to lie ahead for 1960 and early 1961.

Second on the list of strengths is plant and equipment outlays. The surveys in this area still point only restrainedly upward, but forecasters seem willing to bet that as the tide of business sentiment rises with the post-strike recovery in early 1960,

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	148	147	141
Durable Goods Mfr.	1947-'9-100	Nov.	156	156	151
Nondurable Goods Mfr.	1947-'9-100	Nov.	144	144	135
Mining	1947-'9-100	Nov.	123	117	123
RETAIL SALES*	$ Billions	Nov.	18.1	18.3	17.0
Durable Goods	$ Billions	Nov.	5.8	6.4	5.5
Nondurable Goods	$ Billions	Nov.	12.2	12.0	11.4
Dep't Store Sales	1947-'9-100	Nov.	145	144	137
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	30.5	30.2	27.9
Durable Goods	$ Billions	Oct.	14.8	14.9	13.5
Nondurable Goods	$ Billions	Oct.	15.7	15.3	14.4
Shipments*	$ Billions	Oct.	29.7	29.2	27.2
Durable Goods	$ Billions	Oct.	14.1	13.9	12.9
Nondurable Goods	$ Billions	Oct.	15.3	16.1	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	88.7	89.2	84.9
Manufacturers'	$ Billions	Oct.	51.4	51.7	49.3
Wholesalers'	$ Billions	Oct.	12.5	12.5	12.1
Retailers'	$ Billions	Oct.	24.8	24.8	23.5
Dept. Store Stocks	1947-'9-100	Oct.	159	161	152
CONSTRUCTION TOTAL	$ Billions	Oct.	4.8	5.0	4.8
Private	$ Billions	Oct.	3.4	3.5	3.2
Residential	$ Billions	Oct.	2.0	2.1	1.8
All Other	$ Billions	Oct.	1.4	1.4	1.4
Housing Starts*—a	Thousands	Oct.	1180	1325	1303
Contract Awards, Residential—b	$ Millions	Oct.	1515	1466	1595
All Other—b	$ Millions	Oct.	1620	1592	1714
EMPLOYMENT					
Total Civilian	Millions	Nov.	65.6	66.8	64.7
Non-Farm *	Millions	Nov.	52.7	52.6	51.4
Government *	Millions	Nov.	8.3	8.3	8.1
Trade *	Millions	Nov.	11.7	11.6	11.4
Factory *	Millions	Nov.	12.2	12.2	12.0
Hours Worked	Hours	Nov.	39.9	40.3	39.9
Hourly Earnings	Dollars	Nov.	2.23	2.21	2.17
Weekly Earnings	Dollars	Nov.	88.98	89.06	86.58
PERSONAL INCOME*	$ Billions	Nov.	385	382	368
Wages & Salaries	$ Billions	Nov.	260	259	246
Proprietors' Incomes	$ Billions	Nov.	58	57	59
Interest & Dividends	$ Billions	Nov.	37	37	33
Transfer Payments	$ Billions	Nov.	28	27	27
Farm Income	$ Billions	Nov.	14	14	18
CONSUMER PRICES	1947-'9-100	Oct.	125.5	125.2	123.7
Food	1947-'9-100	Oct.	118.4	118.7	120.3
Clothing	1947-'9-100	Oct.	109.4	109.0	107.1
Housing	1947-'9-100	Oct.	130.1	129.7	127.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Oct.	111.9	112.2	110.2
Bank Debits*—g	$ Billions	Oct.	91.9	95.4	87.1
Business Loans Outstanding—c	$ Billions	Oct.	30.5	30.3	N.A.
Instalment Credit Extended*	$ Billions	Oct.	4.2	4.1	3.4
Instalment Credit Repaid*	$ Billions	Oct.	3.7	3.6	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	3.0	8.5	2.8
Budget Expenditures	$ Billions	Oct.	6.9	6.4	7.1
Defense Expenditures	$ Billions	Oct.	3.9	3.8	4.2
Surplus (Def) cum from 7/1	$ Billions	Oct.	(5.7)	(1.8)	(8.8)

PRESENT POSITION AND OUTLOOK

business spending plans will rise proportionately. In many forecasts, the plant and equipment spending rate is expected to rise only slowly in the first half, but to continue up and at an accelerating rate in the last half of the year.

A third strength is the automobile market, which is now widely forecast to reach or exceed a seven-million sales level, including sales of about 500,000 imports. The implied 1960 production figure is thus about 6.5 million for domestic sales; 300,000 more for additions to inventories (which are seriously low as the new year begins); and another 100,000 for exports, or a total of about 6.9 million. This is considerably less than in record 1955, but considerably better than any other year on record. Unlike the plant and equipment market, however, the automobile market is expected to reach its peak rate of improvement perhaps around mid-year, and little further improvement is expected thereafter.

A fourth strength is consumer spending for goods other than automobiles. Wide improvement—averaging about 4%—is anticipated in virtually all non-automotive lines, and there is reason to believe that this forecast will understate the actualities of 1960. There will be plenty of income available to support record rates of spending for soft goods and services.

A fifth strength is the long-term rise in the spending of state and local governments. In recent years, spending by these governments—for roads, schools, institutional facilities and payrolls—has increased about $4 billion a year. Perhaps a slightly lower increase is called for in 1960, since spending of this type can be deferred or cancelled as a result of high interest rates now applying to the borrowing of state and local governments.

A neutral element in the 1960 outlook is the spending of the Federal Government. Now a little less than $54 billion of goods and services is purchased by the government annually; most analysts of Federal outlays expect little change in the coming year. This unwanted stability in Federal spending is owing to the tight rein

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	478.6	484.5	470.2	444.0
Personal Consumption	313.3	311.2	303.9	294.4
Private Domestic Invest.	67.0	77.5	69.8	54.2
Net Exports	0.0	—1.8	–0.9	1.6
Government Purchases	98.4	97.7	97.4	93.8
Federal	53.6	53.9	53.8	53.6
State & Local	44.8	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.3	311.2	303.9	294.4
Personal Saving—d	21.9	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 12	318.8	315.6	294.1
MWS Index—per capita*	1935-'9-100	Dec. 12	233.2	230.8	218.8
Steel Production	% of Capacity	Dec. 19	96.4	96.5	74.5
Auto and Truck Production	Thousands	Dec. 19	178	104	168
Paperboard Production	Thousand Tons	Dec. 12	329	296	310
Paperboard New Orders	Thousand Tons	Dec. 12	299	339	275
Electric Power Output*	1947-'49-100	Dec. 12	261.4	261.1	247.6
Freight Carloadings	Thousand Cars	Dec. 12	642	650	589
Engineerings Constr. Awards	$ Millions	Dec. 17	314	294	292
Department Store Sales	1947-'9-100	Dec. 12	298	249	293
Demand Deposits—c	$ Billions	Dec. 9	61.8	61.0	63.3
Business Failures—s	Number	Dec. 10	248	261	267

PRESENT POSITION AND OUTLOOK

now being held on defense outlays, which constitute by far the bulk of all purchases of goods and services by Washington.

Another relatively neutral element is the United States' net exports of goods and services to the rest of the world—that is, exports minus imports. In the past few months, exports and imports have about balanced out; a few forecasters expect a small export surplus in 1960, thanks to rising demands for our goods in booming Europe. But this sector of the national accounts is hardly likely to provide much stimulus.

Finally, residential building counts as a definite weakness in the year ahead. Characteristically, residential building suffers most directly from any important rise in interest rates, owing to the fixed-interest provisions controlling government guarantees on FHA and VA mortgages. Prospects are now for a continuing decline in housing starts, certainly in the first half of 1960, and perhaps throughout the year.

Add up all our strengths and weaknesses and we can see the biggest year in American business for 1960.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 Range High	1959 Range Low	1959 Dec. 11	1959 Dec. 18
300 Combined Average	492.4	436.9	477.9	479.0
4 Agricultural Implements	492.4	356.2	440.0	447.0
3 Air Cond. ('53 Cl.—100)	137.2	110.5	126.3	129.9
10 Aircraft ('27 Cl.—100)	1375.1	1019.1	1141.9	1105.0
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1099.6	1069.6
4 Aluminum ('53 Cl.—100)	594.5	392.0	486.8	525.6
5 Amusements	252.6	200.5	235.2	231.4
6 Automobile Accessories	541.9	413.4	521.8	541.9H
6 Automobiles	156.8	93.7	148.2	156.8H
4 Baking ('26 Cl.—100)	41.3	28.5	38.3	37.9
4 Business Machines	1395.5	1173.8	1343.3	1330.3
6 Chemicals	835.5	692.9	808.4	808.4
4 Coal Mining	37.8	28.1	34.5	33.6
4 Communications	221.7	164.6	216.8	221.7H
9 Construction	178.9	155.6	172.7	168.0
7 Containers	1142.6	988.8	1010.8	1021.8
6 Copper Mining	344.6	280.7	314.0	322.4
2 Dairy Products	163.1	138.8	157.4	156.0
6 Department Stores	142.7	119.1	141.5	142.7H
5 Drugs-Eth. ('53 Cl.—100)	475.4	379.5	443.4	443.4
6 Elec. Eqp. ('53 Cl.—100)	361.9	268.8	361.9	361.9
3 Finance Companies	769.7	654.6	654.6	661.8
5 Food Brands	470.0	406.3	442.1	446.1
3 Food Stores	279.6	244.4	247.1	249.8

(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 11	Dec. 18
100 High Priced Stocks	306.7	268.4	300.2	301.7
100 Low Priced Stocks	665.9	585.4	640.4	638.7
5 Gold Mining	1005.1	853.0	996.6	996.6
4 Investment Trust	190.6	165.2	177.9	172.4
3 Liquor ('27 Cl.—100)	1624.8	1429.2	1519.4	1519.4
8 Machinery	563.2	452.4	523.3	527.8
3 Mail Order	467.5	253.1	443.2	467.5H
4 Meat Packing	273.1	204.4	269.2	273.1H
5 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	200.6	202.4
9 Metals, Miscellaneous	409.6	343.8	380.3	373.0
4 Paper	1310.5	1170.1	1298.8	1275.4
22 Petroleum	885.5	701.7	735.2	735.2
21 Public Utilities	365.4	334.9	341.7	341.7
6 Railroad Equipment	104.1	86.9	98.0	102.3
20 Railroads	78.2	66.0	67.4	67.4
3 Soft Drinks	715.1	599.8	697.8	674.7
12 Steel & Iron	476.4	392.5	468.8	464.9
4 Sugar	144.7	88.7	90.0	91.3
2 Sulphur	863.3	580.6	634.1	618.8
11 TV & Electron. ('27 Cl.—100)	111.3	65.6	108.5	107.8
5 Textiles	259.6	176.6	224.3	224.3
3 Tires & Rubber	281.8	216.1	262.8	256.4
5 Tobacco	194.9	172.9	193.2	188.1
3 Variety Stores	363.9	331.4	360.6	360.6
20 Unclassif'd (49 Cl.—100)	284.9	239.8	265.9	263.5

H—New High for 1959.

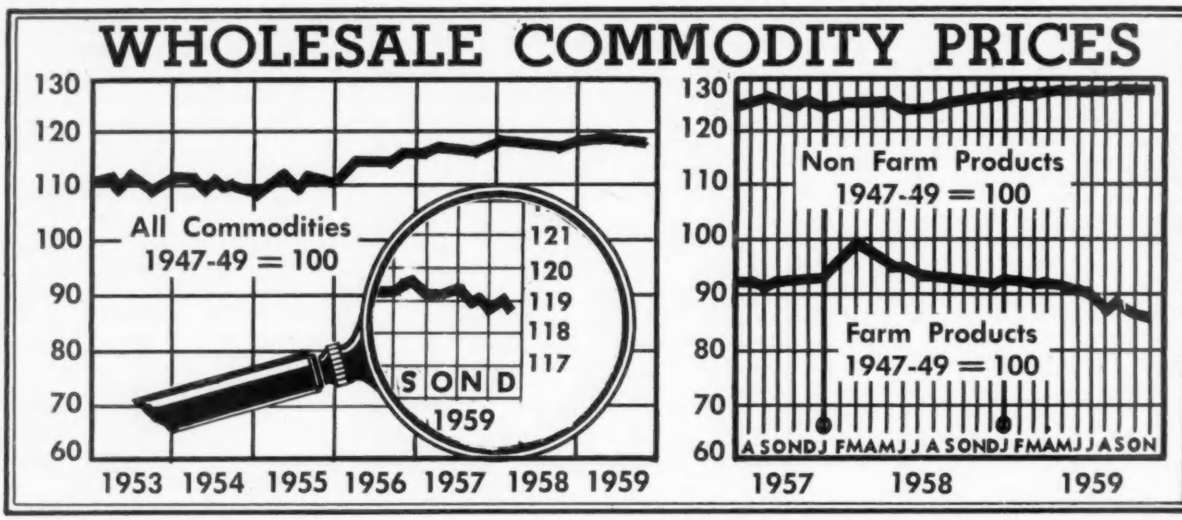
Trend of Commodities

SPOT MARKETS—The BLS daily index of 22 sensitive commodities fell to a ten-year low on December 18, but the weakness centered in the raw foods component of the index. This sector fell 3.7% in the two weeks ending December 18, while raw industrial materials were up 0.6%. This type of divergent action has been going on for a long time as can be seen by comparing current levels with those of a year ago. For that period the raw foods sector has fallen 14.2% while raw industrial materials are 5.0% above their year-ago level.

Among the rank and file of commodities meanwhile, changes were small, although the farm products group improved somewhat. The index of all commodities other than farm products and foods, fell by a scant 0.1%, remaining in the narrow range that has been characteristic for more than a year.

FUTURES MARKETS — Futures prices were mostly lower in the two weeks ending December 18, with farm products displaying the greatest weakness. In part, this reflected trader reaction to Agriculture Deaprtment forecasts of larger crops and lower prices next year. Futures options for wheat, oats, soybeans, lard, sugar, cocoa and hides all were lower in the period under review. Only cotton and zinc managed to register gains, while corn, wool, coffee, rubber and copper were mixed.

Wheat prices softened somewhat during the period and the March option lost 1¾ cents. The USDA's summary of crop production placed the wheat crop at 1,128 bushels, 11 million bushels higher than its previous estimate. Demand for wheat should improve after the turn of the year, and heavy loan entries could produce a tight supply situation.



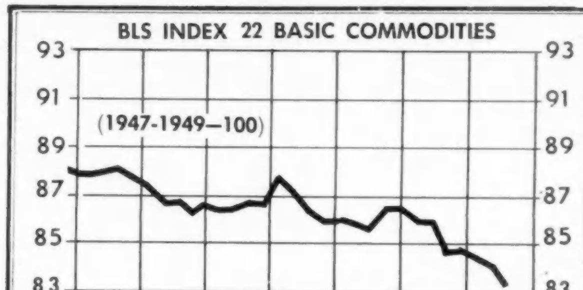
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 15	118.9	118.9	119.0	60.2
Farm Products	Dec. 15	85.6	84.9	91.2	51.0
Non-Farm Products	Dec. 15	128.5	128.6	126.9	67.0
22 Sensitive Commodities	Dec. 18	83.4	84.4	86.3	53.0
9 Foods	Dec. 18	70.0	72.7	81.9	46.5
13 Raw Ind'l. Materials	Dec. 18	94.0	93.5	89.4	58.3
5 Metals	Dec. 18	99.8	101.7	97.7	54.6
4 Textiles	Dec. 18	81.4	80.4	77.1	56.3

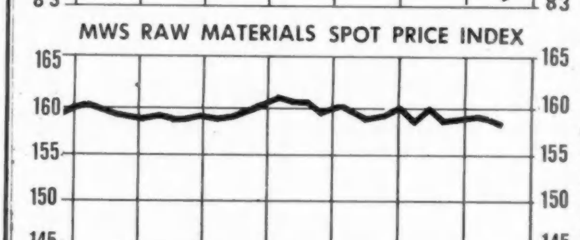
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

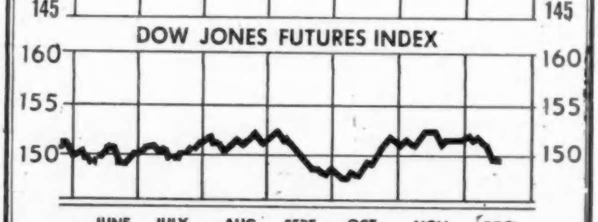
	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1







Will Railroads See Daylight In 1960?

(Continued from page 403)

has somewhat less favorable operating characteristics than the others but which contrariwise faces less direct competition as it goes through, instead of around, the mountains. Rio Grande, primarily a bridge line, will be dependent upon the traffic handed it by its partners, but Western Pacific serves an important and growing traffic-producing area in central California.

Rock Island is undoubtedly the best of the granger roads (excepting closely held Burlington). ► **Illinois Central** enjoys very favorable operating characteristics but is plagued by subsidized barge competition on the paralleling Mississippi River. The selective rate reductions authorized by the Transportation Act of 1958 offer a strong hope of winning some of this traffic back. Valuable real estate holdings in Chicago may also be turned into larger earnings. ► **Kansas City Southern** is in a particularly enviable situation; the road consists essentially of a single air-line route from its namesake city to the Gulf of Mexico at New Orleans and Port Arthur. ► **Missouri Pacific,** largely through the persistence of the late Robert Young, emerged from its prolonged bankruptcy with very little loss to its bondholders, but this means that debt has remained heavy and the common stock is in a leveraged position. Accordingly, this issue has attraction for the speculator but is better passed over by the investors. ► The **Frisco,** whose extensive branch track mileage gives rise to a very light average traffic density is also on the speculative side.

The Southern Roads

The southern railroads, by and large, enjoy an encouraging outlook. Operating conditions are generally favorable, while the rapid industrial growth of the area promises a more nourishing traffic diet.

► **Southern Railway,** although of only medium quality investment rating, is perhaps in the best position. Earnings for the year just ended will show a moderate increase over 1958, despite the absence of a special $5 million tax credit that was enjoyed in 1958. Southern has recently won attention by its order of 1200 aluminum hoppers and is considering the purchase of aluminum box cars.

► **Atlantic Coast Line** and **Seaboard Air Line** are both attractive on their own merits and offer a potentiality of greater benefits if the proposed paralleling type of merger between them should be effected.

► **Louisville & Nashville** also has a favorable earnings outlook.

► **Gulf, Mobile & Ohio** is in a more marginal position, and its current 8% yield should be regarded as a warning signal by the investor.

The Coal Roads

The "Pocahontas" roads, **Chesapeake & Ohio** and **Norfolk Western,** are in a class all of their own. In the past, coal traffic, which has been steady if not growing, has made them almost depression resistant. The outlook for future bituminous movement remains at least moderately favorable, but the two roads are working hard just the same to diversify their traffic. Norfolks already enviable position will be improved further by its recent merger with the Virginian; the eventual savings are estimated at a minimum of $12 million, or $1.60 per share (before taxes) a year. The stocks of both of these roads are attractive for generous yield and stability.

The Two Crippled Giants

It is only when we reach the "trunk-line" territory of the Northeast that the picture becomes more somber. The two crippled giants, **Pennsylvania** and **New York Central,** should participate in the general recovery next year and yet offer little hope of early basic improvement. Although the Central experienced an encouraging recovery from the steel strike that justified it in declaring a token year-end dividend, it will face a troublesome bond maturity in 1962. Both of these roads are burdened by heavy debt, extensive branch line trackage, substantial passenger services and high terminal costs.

Baltimore & Ohio is also relatively speculative, while non-dividend paying **Erie** can be regarded only as a long shot.

Other Roads

The **Nickel Plate,** which reaches only as far east as Buffalo, enjoys the favorable operating characteristics of the Middle West and is definitely attractive. ► The **Lehigh Valley,** however, has nothing better to look forward to next year than a reduced deficit. ► The **Reading,** despite operating conditions which look unfavorable and the drying up of the anthracite traffic which the road was originally built to serve, has managed to turn in very generous earnings in good years, but is dangerously volatile. ► Another former anthracite road, **Delaware & Hudson,** has successfully broadened its traffic base and maintained both a moderate earning power and strong financial position, but again cannot be regarded as a really attractive investment. ► **The New Haven Railroad,** with its continuing deficits, is out of the question for anyone except the most confirmed speculator.

Finally—

The foregoing analysis shows that the outlook for individual roads varies widely; a few select carriers retain blue chip status, a fairly large number can be described as attractive medium-quality investments, a comparable number of moderate speculations rewarded by high current income can be found, and at the bottom of the totem pole comes a depressing group of radical speculations. But the position for the industry as a whole is at least moderately favorable. Investors should not be discouraged from looking at the railroads by the oft-repeated statement that they are earning only 3%—less than the rate on government bonds—on their investment. Nearly all railroad stocks are selling at heavy discounts from book value, which is of no more than historical interest. *What is important to the contemporary investor is yield and prospects of future earnings upon current cost. Regarded in this light many attractive values can still be found in the railroad field.* END

1960
Outlook for Leading Industries

(Continued from page 399)

If 1960 is also a bad year the industry's entire financial structure might feel the effects.

Chemicals—Along with other basic industries the chemical group was hit hard by the steel strike, and hence its immediate future is intimately involved in the strike settlement. Even in the absence of a strike however, the outlook for chemical producers is highly mixed. Companies concentrating on basic industrial chemicals can look forward to excellent demand, especially from the steel industry through the early months of the year. Other segments of the industry, however, notably plastics and synthetic fibers are still wrestling with overcapacity and an unstable price structure.

There is little chance that 1960 will put an end to the chemical industry's overcapacity problem. Capital spending by the group will be down from previous highs but many new facilities are scheduled to come on stream during the year. While prices will remain about where they are the companies are faced with still rising labor costs and an inevitable increase in shipping costs as a result of the rail labor situation.

In effect, demand for chemical products is high, but it will take several years before it can absorb all of the industry's output potential.

Construction—Construction was one of the prime props for the economy through the 1957-1958 recession. However, it is now losing some of its steam in the face of high money rates and political uncertainties.

1960 will still be a good construction year, but it will be of less than boom proportions. *Residential housing is already suffering from high interest rates and the unavailability of mortgage funds.* Highway construction despite all the sound and fury of the 41,000 mile interstate highway network, is still bogged down in Congressional haggling and administrative red tape. Other public construction continues at a good pace, but there is mounting evidence that voters are more reluctant to give their local governments blank checks for schools and other public construction.

Tight money is also beginning to exercise a restraining influence of public construction. The interest rates most cities and states must now pay for their financing come close to statutory limits, posing a knotty problem for financial officers. Many New York communities are stymied by statutory interest rate ceilings, and in California recently a huge issue was withdrawn when its legality was placed in doubt.

Nevertheless for the industry as a whole there is still enough backlog to assure a good 1960, for specific companies. What the longer term future holds is another matter.

Electrical Equipment—The electrical and electronic industry continues to fulfill its promise. 1959 was a banner year and 1960 looks even better. As a matter of fact total industry backlogs at the end of the summer stood at approximately $10 billion, the highest on record.

The backlog covers virtually all segments of the industry from transistors to giant equipment, except for utility generating equipment which is still low as a result of the cutback in ordering a year and a half ago.

The basic reason for this excellent position, of course, is the huge defense funds the government is pouring into electronic products and research. In addition, however, the industry is benefitting from strong consumer demand for television sets and appliances, and from the greater use of electronic equipment by industry in its capital spending plans.

Some labor difficulties lie on the horizon, especially for GE and Westinghouse in the fall of 1960, but nothing to compare with the steel strike. *1960 will be another record year for the electrical industry—but whether its performance will justify the exalted prices of many electronic stocks is another matter. For despite the overall picture, profits for many companies are still spotty or non-existent. The industry will do better than individual companies.*

General Machinery—1959 began as a year of promise for the machinery industry, but the steel strike put an end to all that. The industry is the perfect illustration of the sad fate of innocent by-standers when two goliaths clash.

However, 1959 is down the drain now and nothing can be done about it. What worries the industry most *at this juncture is the possibility that some capital outlays—the life blood of the machinery companies—may have been permanently lost because of the strike.*

There is some encouragement in the 10-15% increase that business leaders foresee in the year ahead, but this is far under par for this stage of the business cycle. Moreover, the aborted opeations in 1959 ate up a good deal of the profits the companies reaped from last year's capital spending, making the earnings recovery from the recession the least impressive on record.

Fortunately many companies have diversified their operations so that there is no longer the complete reliance on industrial expansion there once was, but capital spending is still the most vital prop for the industry. A resumption of the steel strike, or a rail strike later in the year would affect many companies adversely. As a group, investors would do well to avoid these stocks until the 1960 picture is clarified. END

Companies Prospects Based on Backlogs — New Orders

(Continued from page 413)

ever. The backlog figures as they stand, offer no encouragement to those who see a prolonged boom after the opening six months of 1960. There will be a period of feverish activity as industry scrambles to build up its inventories and to get the production wheels turning smoothly again. After that, there will have to be a sharp further increase in capital spending—much sharper than the ten percent business now anticipates—if backlogs are to build up to comfortable levels. END

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Outlook For The Utilities

(Continued from Page 417)

was considered a setback for the producers. Transcontinental Gas Pipeline had proposed to build a pipeline and obtain gas from 26 producers in southern Louisiana and the Gulf of Mexico, controlling an estimated two trillion cf of gas reserves. Transco had agreed to pay an average of 23¢ per mcf with an automatic increase of 2¢ every four years, although the highest price previously paid in that area had been about 17¢. The case involved the major issue as to whether the FPC should have investigated the price before approving the project; the Commission had held previously that it could approve a project without initially passing on price. Thus this project may now be delayed for some time.

● Last June in the famous "Catco" decision the Supreme Court had also told the Commission that it was wrong in permitting Tennessee Gas to pay 23¢ per mcf for gas (involving 1.75 trillion cf over a period of years) when the previous value in the area had been around 17¢. Fresh Commission hearings are scheduled for next month.

The New Liquefied Gas

Considerable interest is being shown by gas distributors, particularly those along the Atlantic seaboard, in the possibility of transporting liquefied gas (kept at very low temperatures) from Texas or Venezuela. England is already importing such gas by an especially designed ship. The advantage is, of course, that far greater amounts of gas can be transported or stored in the same space if in liquid form. **Brooklyn Union Gas, New England Gas & Electric** and **Baltimore Gas & Electric** are some of the companies interested in the possibilities of this radically new method.

Gas Utility Earnings Trend

What is the earnings trend for the gas utilities? For the 12 months ended September 30 reports of natural gas pipeline companies to the FPC showed a composite gain in revenues over the previous 12 months of 12% and an increase in net income of 7%. (An average of individual company reports shows a gain in share earnings of only 5% but this is compiled on a different basis.) In any event the net income of these companies reflects a substantial amount of revenues collected under bond in rate cases still to be decided, so that the figures are not too meaningful. The earnings of retail distributors (which are affected by local weather conditions and resulting househeating sales) are running about 8% more than last year. The new heating season got off to a good start in November, with gas sales running well ahead of last year, but the first half of December probably made a less favorable comparison.

Communications Companies

The leading communications companies have "gone into orbit" this year after a rather drab performance in some earlier years. **American Tel. & Tel.** was finally split 3-for-1, effective June 1, and the long sacred $9 dividend was increased 10%, making the rate on the new shares $3.30. Share earnings on the new basis remained around the $4.35 level for the three years 1955-7 (after a sharp advance in 1955) but in 1958 advanced to $4.67 and this year may increase to around $5.15, it is estimated. These gains seem to be largely the result of increased business, greater automation, and some decrease in number of employees. Long distance conversations this year gained about 10%, and automatic long distance dialing is now steadily expanding. Local experiments with electronic switching will begin in 1960, and when fully developed over a period of years this may introduce substantial new economies.

General Telephone has also attracted a great deal of attention because of its continued rapid expansion and steady acquisition of other companies, giving it the character of a growth company. The merger with Sylvania and change of name to General Telephone & Electronics aroused investors' interest, and the stock (recently around 84) is now selling at roughly 24 times estimated

1959 earnings (based on average shares)—so that the price has fully discounted the outlook. While the business is now somewhat more industrial than utility, so far as sales are concerned, acquisition of independent telephone companies is continuing. Recently the company made a bid for the controlling stock of United Utilities, the third largest telephone holding company; while this was rejected, it seems possible that the company may eventually be acquired. However, rumors that Rochester Telephone, largest independent operating company, may be acquired seem less likely to work out.

Western Union has also been active and strong, advancing from last year's low of 15 to a recent high around 51. The company has been increasing its profitable "leased lines" business very rapidly, and recently announced two valuable new contracts with the Air Force, which will mean a substantial expansion of micro-wave facilities. This seems to have been thoroughly discounted in the rise of the shares in the light of the earnings and dividend outlook.

END

Significant Political and Economic Trends Arounud the World

(Continued from Page 409)

will have been well worth while.

Paris

The problems that faced the President in Paris were, of course, of a very different nature than those of Asia and North Africa. Economic activity in Western Europe is currently at record high levels. The vigorous economic expansion under way throughout the area has generally continued unabated in recent months, and in several countries it has even accelerated. On the basis of the current expansion, several major European countries are expected to show rates of growth in 1959 that will be the largest recorded since World War II. *There is even some danger that the boom might become inflationary, since it is now pressing against near-capacity output levels and full employ-*

ment, with resulting pressure on prices and wages. This is particularly true of West Germany, whose government is currently considering measures to put the brakes on further economic expansion. However, on the whole, the inflationary specter is still only a dim shadow on the economic horizon. Thus far, price and wage increases throughout the area have remained relatively modest. Confidence abroad, therefore remains fairly high, so that the present growth in Western Europe will not develop into an inflationary boom.

This does not mean that Western Europe has no serious economic problem. It does have one, indeed, and there is no doubt that it figured significantly in President Eisenhower's private talks with men like Adenauer, Macmillan and De Gaulle. The problem is, of course, the economic split of Europe between the *Outer Seven*, which have just formed a free trade area, and the *Inner Six*, which are in the process of creating a customs union. The problem of these two groups has been fully discussed in a special article in the December 5th issue of the *Magazine of Wall Street*. The most important development that has happened since then has been U.S. Undersecretary of State Douglas Dillon's trip to Europe for the purpose of helping to find a *modus vivendi* for both groups, and at the same time convince them that they must not become protectionist, but, on the contrary, must keep liberalizing their trade restrictions against the outside world. Mr. Dillon, according to all reports, was particularly emphatic on this last point. For the great danger of these new trade blocks is that instead of increasing the free flow of goods between countries and regions they might actually decrease it.

No country would be more adversely affected by this than the United States which does a multi-billion dollar business with both the Common Market countries and the members of the Free Trade Area.

If both of these blocks should adopt high protective tariffs against the outside world it would not only split Europe into two rival trade areas but it would also cause further losses in our export trade and, conversely, increase our net outflow of dollars. Our government feels, therefore, that everything must be done to reverse this outflow. Hence, Mr. Dillon, Mr. Herter and even Mr. Eisenhower himself surely impressed on the spokesmen of the two trade blocks, the great need to abrogate all remaining dollar restrictions, and to adopt a basically liberal trade policy. The argument will be difficult to refute in the face of the growing gold and dollar accumulations of nearly every European country.

The real test of Europe's intentions will probably not come until next September when the Western World's trading nations meet in Geneva to work out new tariff agreements under the auspices of GATT. It will be the first time that the two new trade blocks will participate in these negotiations. The outcome will determine European—and to a large extent also American—trade policies and loans for most of the next decade.

Aid to Underdeveloped Countries

But trade blocks and tariff agreements are not the only economic problems the American leaders in Paris have discussed with their European counterparts. At least equally important is the question of economic assistance to the underdeveloped countries of the world. The U.S. government is convinced that the industrialized nations with a capital surplus must extend such assistance, *but that the lion's share can no longer be borne by America, in view of our growing balance-of-payments difficulties.* Hence, Western Europe, with its booming economies and its rising foreign exchange surplus, must be willing to shoulder an increasing share of this burden.

In theory this thesis is flawless and it is unlikely that anyone will contradict the Americans on it. On the contrary, just a few days ago, Sir Oliver Franks, chairman of Lloyd's Bank and former British Ambassador to Washington, has privately advanced an idea among top government circles in Washington, London and Paris whose main conclusions are as follows: "If twelve years ago the balance of the world turned on the recovery of Western Europe, now it turns on a right relationship of the industrial north of the globe to the developing south. . . ."

The problem of the developing south (i.e. the underdeveloped countries) was succinctly defined by Sir Oliver in these words: "They face a vicious circle. Low living standards and free, democratic societies cannot produce sufficient saving for capital. This circle can be broken in one of two ways. It can be broken by tyranny, which by working hardships on the people and holding down their standard of living, forces savings for rapid development; or it can be alienated by capital from outside which gives a free society the chance both to develop and to remain free."

There are Always Those With Axes To Grind

But if European leaders agree generally that their countries must make a greater effort to direct the outflows of capital into the underdeveloped areas, *some private European bankers do not always seem to share this awareness.* Thus, just as Mr. Dillon was discussing the problem in Paris, a group of German, Belgian, French and Italian bankers reportedly offered large long-term credits to *Czechoslovakia* for the development of its industry under a new Five-Year Plan. In a world in which foreign development capital has become one of the most essential as well as scarcest commodities, its use for purposes not in the best interests of the Free World should no longer be tolerated. END

Can Meat Packers Maintain 1959 Gains?

(Continued from page 419)

products of meat processing. The company is believed to be the first having a basic position in all three primary fertilizer materials—nitrogen, phospherous and potassium. Negotiations are reported to have made progress in a multi-million-dollar potash venture in Utah with Delhi Taylor Oil. The combination would represent a strong competitive factor in the fertilizer field. Other activities involve soap-making and other cleansing materials.

Swift & Co. long has been re-

garded as the most efficiently managed factor in the industry, and its superior showing has been attributed in no small measure to diversification in several directions. In addition to meat, of which it is the world's largest processor, Swift is a leader in poultry processing and distribution. Other lines include dairy products, vegetable oils, shortening, plant foods and pet foods. Streamlining of operations in modernized plants gave impetus to improvement in 1959 results.

Diversification has taken a different tack in the case of *Wilson & Co.*, which has a subsidiary regarded as the country's largest manufacturer of sporting and athletic supplies. As a consequence Wilson has felt beneficial effects of increased spending on leisure and recreational goods. Close government regulation of many activities involved in food processing has restrained more aggressive diversification in other non-food lines as well as in distribution policies.

Increased Livestock — and Lower Prices

Of special significance as a fundamental development likely to have a favorable effect on meat packers over the near term is the favorable trend of supply and wholesale prices of livestock. Government surveys disclose, for example, that livestock production has increased substantially in the last year, and this development has found reflection in lower market quotations. Such a development, not often witnessed, affords an opportunity for packers to obtain animals for processing at advantageous prices. Assuming that lower retail prices for meat products follow in due course, consumer demand should contribute to large sales and consumption of increased tonnages. This unusual occurrence is the favorable situation that optimists on the group have been awaiting since it became apparent a year ago that abundance of feed would stimulate livestock raising.

Although costs have been raised as a result of concessions to labor in negotiation of new contracts in recent months, settlements were regarded as reasonably satisfactory to both sides in spite of some lengthy work stoppages. As a result, it is believed in the industry that more harmonious relations are likely to prevail in 1960 and that profit margins may improve if an expansion in volume fulfills optimistic forecasts. Hence, earnings in the coming year should compare favorably with results reported for fiscal 1959.

►*Supply conditions are not always so favorable* as at this time. Prosperous industrial conditions and relatively high meat prices tend to encourage enlargement of herds with the result that farmers bring about a condition of oversupply, but the cycle ordinarily covers considerable time, depending on general economic conditions. *Current low prices for livestock are virtually certain to discourage breeding and fattening of cattle and hogs. Hence, in another year or two livestock may become scarce, tending to bring about problems for packers in arranging processing operations to available supplies.*

►*Consumer demand* fluctuates less volatilely. Consumption has tended to rise in reflecting a high level of personal income from the Korean period to a peak in 1956 of 196.5 pounds per capita. Slight declines took place in 1957 and 1958, but the total of 189.6 pounds per capita last year compares favorably with any year prior to 1956. Consumption of beef has increased more rapidly than poultry or other categories.

Earnings and Dividends

In the light of a cheerful prospect at this early stage of the 1960 fiscal year, it may be well to take a more detailed look at several of the industry leaders with especial reference to latest earnings statements. Statistical information in the accompanying tabulation will be found useful in supplementing observations presented below.

Swift & Co. — Benefits of more efficient operations and a better balanced output in the fiscal year ended October 31 were reflected in earnings improvement of almost 100 per cent. Net income rose to above $17 million, or $3.20 a share, from $9.1 million, equal to $1.70 a share, in the preceding year, which included 53 weeks. Sales volume declined to about $2,475.5 million from $2,645.4 million in 1958. Management at-

tributed progress to "steps taken to improve efficiency and to reduce costs in all divisions of the company's business." Profit margins virtually doubled, but still were considered inadequate for the volume of business handled.

► *Foreign operations* contributed significantly to improvement in results, management pointed out, adding that more satisfactory conditions prevailed in poultry processing, dairy products, ice cream, edible fats, vegetable oils and agricultural chemicals as well as leather.

Armour & Company, second largest meat processor, experienced an excellent year, on basis of preliminary figures, and management is optimistic over prospects for 1960. Net income for the October 31 fiscal year was estimated to have approximated $14 million, exclusive of certain plant adjustments and charges to surplus incident to closing of plants, according to company officials. This figure would be equal to about $2.73 a share and would compare with $5.6 million, or $1.08 a share, in 1958, based on present capitalization. The encouraging outlook led directors to declare a cash dividend of 30 cents a share payable January 15, placing the stock on a $1.20 annual basis. In addition a distribution of one-fortieth of a share of International Packers was authorized for each share of Armour, payable the same date. The previous payment was 10 per cent in stock distributed last March.

Outlook For Bank Stocks In 1960

See the next issue of The Magazine of Wall Street

Cudahy Packing—After a disappointing six months, Cudahy Packing experienced encouraging improvement in earnings in reflecting heavy marketings of hogs. Increased operating efficiency and larger volume accounted for decided gain in profit margins. For the fiscal year, net income dropped moderately to $2.6 million, or $1.43 a share, from $2.7 million, or $1.46 a share, in 1958. For the first half of the year, net profit fell back sharply to 21 cents a share from 67 cents in the first half of 1958, indicating extent of the rebound. In other words, earnings for the second half approximated $1.22 a share. Because of losses in previous years, no provision was made for federal taxes either in 1959 or 1958. Management has expressed confidence in continued progress in the year ahead.

Since **John Morrell & Company** specializes in processing pork products, increased supplies of hogs helped explain more satisfactory results in the year just ended. This company has stressed packaging of products for distribution in special channels with the result that wider margins usually are obtained. Net profit for fiscal 1959 ended October 31 is believed to have approximated $7.10 a share, against $2.80 a year earlier. After payment of a 2 per cent stock dividend last June, cash payments were raised to 20 cents quarterly from 15 cents a share. For several years payments had been made at the rate of 50 cents a share annually. Directors declared a 25 per cent stock dividend payable February 15th and announced their intention of continuing the 80-cent cash rate on the additional shares.

International Packers is the largest meat packer in South America, having expanded operations little more than a year ago by acquisition of foreign meat and food-processing facilities and distribution outlets of Armour & Co., when the latter decided to withdraw from South America. International Packers distributed to Armour 885,000 shares of stock. Results for 1959 are estimated to have improved considerably over 1958, but conditions for the coming year are not so encouraging as in the United States. Dividends are being paid at the rate of 25 cents semi-annually.

The third largest meat packer in this country, **Wilson & Company** is one of the largest manufacturers of sporting goods. Management has achieved better-than-average results in an industry that has posed many problems. Exceptionally difficult labor negotiations extending over several weeks had an adverse effect on operations at the tag end of the 1959 fiscal year, and in early weeks of the 1960 period. Net profit last year is estimated to have approximated $3.50 a share, compared with $3.10 for 1958, and unless disruption of operations continues longer than appears likely, further gains would seem a reasonable hope for 1960. Dividends have been paid at the rate of $1.40 a share for 1959, compared with $1 annually since payments were resumed in mid-1956.

G. A. Hormel and **Hygrade Food Products** are other representatives of the industry which are less well known to investors, but each handles a volume of business running from $350 million to more than $400 million annually. Hygrade reported net profit for the fiscal year ending October 31st of $4.50 a share, compared with $2.39 a year earlier. Management is optimistic on 1960 prospects. END

For Profit and Income

(Continued from page 421)

the clear to 53 in recent days and should be held for higher prices . . . Clevite was recommended about a year ago at 23. Because of rising earnings and a sizable electronic "content", the stock has been "hot" in recent weeks, getting to a high of 59¼ and since reacting to 53. It is far from cheap on earnings. On the next rally, why not take at least enough profit to write off your cost? . . . Recommended last April at 69 and in September at 80, Jones & Laughlin is the best-acting steel, recent-up to a new high of 97¾. Stay with it . . . The same goes for Emerson Electric, recommended in the August 29 issue at 62, recently at a high of 77½ and currently at 76½. END

★★★ Book Reviews ★★★

The Story of Indonesia

By LOUIS FISCHER

Between the Pacific and Indian Oceans, between Asia and Australia, lie 7,900 islands. Once they were the Dutch East Indies. Today they are Indonesia, a richly endowed land—and a potential powder keg.

In the brilliant blend of history and personal journalism that he has made particularly his own, a top-flight reporter and scholar has written an absorbing account of that fabulous archipelago, from the time of Marco Polo through the coming of the Portuguese and Spaniards, the centuries of colonialism under English and Dutch, the Japanese Occupation and the present decade of independence.

It is the story of an old land and a young nation; of a diverse people and their myriad religions and ancient culture; of poverty in the midst of plenty; of wars, revolutions and rebellions; of police actions, army revolts, military coups, Communist uprisings, guerrilla movements, assassinations and intrigue. Finally it is the story of a heroic four-year-long struggle for independence and of the complex of problems that beset a young Eastern country as it looks West in its efforts to make its own place on the globe.

Mr. Fischer spent months in Indonesia, talking to everyone from peasants to professional people to officials, observing and asking questions endlessly. He came to know intimately her leading political and military figures, and here he gives us fascinating and amazingly candid closeups not only of such early proconsuls as the fabled Raffles but of the country's present-day leaders, including President Sukarno, former Prime Minister Hatta, Colonel Nasution, the Sultan of Jogjakarta, Sjahrir Tan Malaka, the Communist leader, and others. His perceptive discussion of Indonesia's economic, political and social problems raises questions of deep importance to the West and concludes with a thoughtful recommendation of the measures we must take to keep Indonesia from going Communist.

Mr. Fischer's sharp reporter's eye, his complete honesty and meticulous scholarship have produced a book of compelling interest about a country whose crucial importance to the rest of the world is too little recognized.

Harper $5.00

Yes, Mr. De Mille

By PHIL KOURY

Brimming with anecdotes, warmly personal, this book is a bounding, energetic, explosive study of Hollywood's most feared pasha, the late Cecil B. DeMille, a man who created legends more fascinating than his film spectacles. An unpredictable, not-so-affable tyrant, filmdom's "most flamboyant peacock," Mr. DeMille marched armies across vast deserts, and spent fortunes to re-enact Biblical miracles.

Clinically, and often hilariously, *Yes, Mr. DeMille* dissects the man who created splendor in marble halls and golden bathtubs. Brushing aside the frimframmery of press agentry, this crackling study of the world's best-known movie director is sympathetic, yet revealing. It introduces the devoted and longsuffering people who worked for him, and provides insight concerning his iron-willed techniques for success. There are accounts of DeMille's unusual economies as a trader; his ideas on clothes, beauty, women; his development of the early-day stars and, of particular interest, his methods of hiring and working with leading ladies.

Well known to the film colony but little known outside of it was DeMille's two-fisted treatment of writers. These heroic struggles, as well as DeMille's eye-opening interpretation of passages from the Bible, are presented in fascinating detail. No anecdote is left unturned to set forth the real DeMille—autocrat, genius of a kind, despot. Its authoritative detail could have come only from someone who served for years within the small, select DeMille circle.

Putnam $4.50

Advise and Consent

By ALLEN DRURY

This brilliant novel of politics and politicians, is a story so sweeping and complex in its conception that each segment alone would make an enthralling book. Here, in ADVISE AND CONSENT, Allen drury has penetrated the world's stormiest political battleground—the smoke-filled committee rooms of the United States Senate—to reveal the bitter conflicts set in motion when the President called upon the Senate to confirm his controversial choice for Secretary of State. Here, he has probed in fascinating detail, the minds and motives of the statesmen, the opportunists, the old-fashioned idealists of present-day Washington—their public and private "faces," their driving ambitions, their vanities, their hopes, their fears, set against the background of steadily mounting crisis with Russia.

A Senate old-timer's wily maneuvers, a vicious demagogue's blistering smear campaign, the ugly personal jealousies which turned a highly qualified candidate into a public spectacle, the tragic martyrdom of a presidential aspirant who refused to sacrifice his pinciples for his career—never has there been a more revealing picture of Washington's intricate political, diplomatic, and social worlds.

ADVISE AND CONSENT is far more than a timely, eye-witness chronicle of our American leaders today—uneasy, dedicated, or bewildered—trying to apply old concepts to new and frightening events. It is a remarkable *human* document which places man's weakness and nobility under the same relentless but compassionate scrutiny. Hailed by one enthusiastic reader as "a Washington novel worthy of the name and the city," ADVISE AND CONSENT is one of the most exciting and authentic American political novels ever written—by a man who is an experienced and astute reporter as well as a profoundly skillful writer.

Doubleday $5.75

1959 Survey of Industrials

Canadian corporations went through a year of decline and recovery in 1958, indicates the 33rd annual edition of The Financial Post Survey of Industrials. The decline, so pronounced in late 1957, diminished during the first half of 1958 and levelled out in the third quarter. By fourth-quarter 1958, a strong recovery was under way.

The many hundreds of companies reviewed in the Survey cover a wide variety of industries: manufacturing, public utilities, pulp and paper, merchandising, iron and steel, chemical, electrical, printing and publishing, investment trusts and mutual funds, banks, trust and loan companies, and transportation firms.

The company reviews in the new 1959 Survey include earnings statements and balance sheets, working capital position, dividend history, funded debt, directors and subsidiaries. Stock market prices are shown in the eight-year record of the price range of Canadian industrial stocks. All these features add to the book's value as a reference volume.

Financial Post, Toronto $4.00

The Last Years of Napoleon

By RALPH KORNGOLD

Here is the most comprehensive account ever published in this country of Napoleon's exile on St. Helena, and of the human dramas, small and large, that were played out on a rock in the Atlantic more than a century ago.

In the house called Longwood, Napoleon and his suite dined off the finest Sèvres china and used cutlery made of gold. But they were all prisoners, and boredom exacerbated the intrigue and the petty quarrels that went on among the four men, and the wives of two of them, who had accompanied Napoleon into exile.

Mr. Kongold gives an absorbing account of the daily life of Napoleon and his household. Quite as fascinating is his story of the relations between Napoleon and Sir Hudson Lowe, governor of the island. And in depicting the personalities of the two men, Mr. Korngold makes a notable contribution to historical scholarship, for he presents a view of Sir Hudson Lowe that controverts the findings of many previous historians. The Napoleon who moves through these pages is an impressive figure, and a sympathetic one. By contrast, Sir Hudson is shown to be in a cogently documented portrait, smallminded and vindictive, at once jealous and fearful of the greatly gifted man he was called upon to guard.

Harcourt, Brace $6.75

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